Profile of Employee Benefits: 1981 Edition

Report No. 813

The Conference Board

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Conference Board Report No. 813 Printed in U.S.A.

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ISBN No.: 0-8237-0249-9

Profile of Employee Benefits: 1981 Edition

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A Research Report from The Conference Board

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About This Report

THE DATA BASE for this report is designed to represent employee benefits practices of a frame consisting of 3,083 companies: 2,651 large companies in seven broad types of business, and a sample of 432 small manufacturers. This frame is described in an accompanying table.

The data are derived from responses to two detailed questionnaires, each mailed to one-half of the frame. Respondents to the two questionnaires numbered 677 and 691, respectively. Each questionnaire elicited details of employee benefit plans and paid-time-off practices. Some questions were included in both, and others were in one or the other of the questionnaires. Therefore, data items are based on three totals of respondents: 677, 691, and the total of these, 1,368.

The Sampling Frame

Type of Company	*Source or Criteria for Selection*	*Number of Companies*
Commercial Banks	Deposits of $100 million or more and employ 250 people or more	384
Insurance Companies	Premium income of $10 million or more	410
Large Manufacturers	Listed among *Fortune's* 1000 Industrials	962
Smaller Manufacturers	Employ 250 to 999 people (a sample)	432
Gas and Electric Utilities	Employ 250 or more people	209
Retail and Wholesale Trade	Employ 1000 or more people	363
Construction Firms	Employ 500 or more people	219
Trucking and Warehousing Firms	Employ 500 or more people	104

The following tables describe the total of the two samples in terms of the companies' business classifications, number of employees in the United States, geographic distribution, and the collective bargaining status of employee benefits.

Information was elicited about benefits in force for each of three employee groups:

(1) Nonoffice employees, consisting of the production or operating group indigenous to the business (except in banking and insurance), and, where applicable, the machinery- and equipment-maintenance people;
(2) Office and clerical employees; and
(3) Managerial employees.

The first two groups include only nonexempt employees, as defined in the federal wage and hours law; the managerial group consists of exempt employees.

Benefits information is shown separately for each employee group where differences in practice appear meaningful. Similar comparisons are presented whenever differences between nonbargained plans and those negotiated with unions are germane.

In each benefit area, "typical" or "average" practices are specified, and "leading-edge" practices are also identified—that is, those which are more liberal than the average; have the potential for becoming average; and are practiced by at least 10 percent of the responding companies.

Establishing Trends

Most benefits trends reported here are established by comparing the current data with those collected for the *Profile of Employee Benefits,* The Conference Board, Report 645, 1974. Data for that report were collected from substantially the same frame as is described here. The exceptions are: 27 air transportation companies and 142 hotel and restaurant companies included in the earlier frame are not included now, and the construction list of firms employing 1,000 or more people each was expanded to include those with as few as 500 people.

The three surveys for the earlier report were conducted over a six-month period in late 1972 to 1973. All references to data from these surveys use the single year of 1973 for simplicity. Both questionnaires for the present study were mailed in April, 1979. The two studies, then, span a period of about 6.5 years.

cited above. Data from other sources are referred to in the chapter notes.

Respondents, by Employment in the United States

Employment Classification	Companies Number	Companies Percent
Under 250	60	4%
250 to 499	130	10
500 to 999	200	15
1,000 to 4,999	499	36
5,000 to 24,999	360	26
25,000 and over	119	9
Total Companies	1368	100%

Area	Nonoffice Units Number	Nonoffice Units Percent	Office Units Number	Office Units Percent[2]
New England	62	7%	113	8%
Middle Atlantic	152	16	257	19
East North Central	229	25	336	25
West North Central	76	8	131	10
South Atlantic	97	10	148	11
East South Central	41	4	58	4
West South Central	77	8	104	8
Mountain	22	2	35	3
Pacific	67	7	114	8
Multiareas[1]	104	11	72	5
All Areas	927	100%	1368	100%

[1]Principally includes companies reporting on benefits policies of units that extend over more than a single area.
[2]Details do not add to 100 because of rounding.

Respondents, by Type of Business and Employment

Business	All Companies Number	Companies by Employment: Under 500 Number	Under 500 Percent	500 to 999 Number	500 to 999 Percent	1000 to 4999 Number	1000 to 4999 Percent	5000 or more Number	5000 or more Percent
Commercial Banking	223	39	17%	67	30%	93	42%	24	11%
Insurance	218	69	32	42	19	64	29	43	20
Large Manufacturing	488	—	—	—	—	185	38	303	62
Small Manufacturing	108	55	51	53	49	—	—	—	—
Electricity and Gas	152	19	12	16	11	80	53	37	24
Retail and Wholesale Trade	109	2	2	9	8	45	41	53	49
Construction	48	6	12	9	19	21	44	12	25
Trucking and Warehousing	22	—	—	4	18	11	50	7	32
All Types	1368	190	14%	200	15%	499	36%	479	35%

Respondents, Collective Bargaining Status of Employee Benefits, by Type of Business

Type of Business	Nonoffice Units Total	Nonoffice Units Negotiated Number	Nonoffice Units Negotiated Percent	Office Units Total	Office Units Negotiated Number	Office Units Negotiated Percent
Banking	—	—	—	223	2	1%
Insurance	—	—	—	218	10	5
Large Manufacturing	488	357	73%	488	69	14
Small Manufacturing	108	62	57	108	5	5
Electricity and Gas	152	115	76	152	53	35
Retail and Wholesale Trade	109	48	44	109	10	9
Construction	48	23	48	48	2	4
Trucking	22	18	82	22	11	50
All Types	927	623	67%	1368	162	12%

Foreword

1981 is an appropriate vantage point for assessing the field of employee benefits, its management, and its prospects. A year that many believe will prove to be the beginning of a process of historic change, it follows an eight-year period characterized by several government interventions into employee benefits planning.

Government interventions led benefits management to offer Health Maintenance Organizations as alternatives to health insurance plans whenever such units were made available. Requirements for participation, vesting and funding of pension plans were specified, and managements changed plans accordingly. The structure for benefits plan reporting, both to the government and to participants, was revised and broadened, and managements adapted to that. Pregnancy was legislatively defined as a disability, and so became subject to coverage under health insurance and disability income plans following a period of litigation that repeatedly led to the Supreme Court of the United States. Use of the basic management tool for terminating careers, mandatory retirement, was postponed to age 70, introducing further regulatory changes for employee benefits.

Inflation has proven to be a persistent problem as managements attempt to administer health insurance economically for their companies while maintaining the high benefit levels employees have come to expect, and even adding new benefits such as dental insurance. The combination of inflation and the changing structure of social security's benefits and taxes led managements to substantially revise their private plans' role in providing retirement income.

What shines through most strongly in this report is a high degree of competence, ingenuity and persistence on the parts of benefits administrators that spells professional excellence. It seems likely that the managerial sagacity that characterizes this past period will continue to be required in the years ahead.

The newly prevailing mood in the country and in Washington suggests a changing role for government, with some implications for employee benefits already appearing in the 1981 tax package. Just what impact will be felt by the benefits package from the liberalized tax treatments of some savings remains to be worked out. One certainty, however, is that benefit management will be investigating the potential for cost-effective benefits provisions in the new rules.

This study, designed to reflect the benefits policies and practices of an important segment of the private nonfarm economy—consisting of some 3,000 companies in banking, insurance, manufacturing, electricity and gas distribution, trade, construction and trucking and warehousing—can be used to document competitive practices in specific types of business, and to judge the direction and speed that future change is likely to take. Although it is a "profile," the study goes beyond the mere outline of policies and practices to provide sufficient depth when necessary to clarify practices, or important planning strategies, and to discern future direction.

The Conference Board should make explicit that the information in this report is not meant to imply that the prevalence of any particular practice, by itself, suggests the "right" or "best" one for a particular company. The intent is only to measure the varied and changing context within which decisions, of necessity, are made.

This study establishes trends by comparison to one of similar scope and comparable sample published in 1974. A Conference Board tradition of periodic, comprehensive surveys of practices in employee benefits, time-off-with-pay, and other personnel areas, taken together with a tabular series on other *personnel practices* being published contemporaneously, provides an opportunity for developing comprehensive trend comparisons for periods of up to 44 years.

This report was designed and written in the Department of Organization Development Research; the department, directed by Walter Wikstrom, is a unit of the division of Management Research under the direction of Harold Stieglitz, Vice President.

KENNETH A. RANDALL
President

Author's Acknowledgments

The author is grateful to all those who contributed their expertise and talents to this study. He is especially thankful to the nearly 1,400 executives who made the whole enterprise possible by supplying information and insights about their companies' employee benefits.

Merry Law supervised the data preparation, and provided the computer programming and the tabulations, under the direction of E. Kay Worrell, Manager, Survey Research Center. The many charts were prepared under the direction of Chuck N. Tow, The Board's Lead Chartist.

Chapter 1
Overview

THE PERIOD SINCE the Conference Board's 1972-1973 Profile surveys were conducted has been characterized by a succession of upheavals testing the ingenuity of managements.[1] The benefits function and its financial and legal relatives were called upon to deal with such diverse matters as the introduction of new and revised federal regulations, the imposition of voluntary wage and price controls, rampant inflation, and escalating taxes amidst substantial shifts in labor force composition—all while employees and unions continued to press for "more."

During the period, government intervened in various parts of the benefits package:

- An attempt was made to encourage one proposed solution to a developing cost crisis when Congress enacted the Health Maintenance Organizations Act in 1973. After a slow start, remedied by subsequent corrective amendments to the law, preexisting and newly formed health-care organizations applied for qualification under the Act, and now more than 120 such "Qualified HMO's" are functioning around the country. Their growth is reflected in the fact that 43 percent of the companies surveyed for this report have offered the HMO option to conventional health insurance coverage to some of their employees. Although notable HMO successes have occurred, as for example in Minneapolis, a general disinclination of employees to respond favorably to the offer is documented by the 3 percent median acceptance rate among Profile companies' employees who had the choice.

- Again in 1974, Congress applied its tools to employee benefits problems, and the Employee Retirement Income Security Act (ERISA) resulted. This Act's passage was followed by a protracted "shakeout" period, but most plans now function routinely under it, although continuing administrative development extends the adjustment period for some—the recently enacted Multiemployer Plans Amendments Act is an example.

- Litigation over covering pregnancy as a disability led to passage of the Pregnancy Disability Act of 1978. This Act clarifies that discrimination based on pregnancy, childbirth or related medical conditions is illegal sex discrimination under Title VII of the Civil Rights Act of 1964. Pregnancy conditions must now establish eligibility for benefits on equal terms with other disabilities. The law is particularly important to health insurance plans and to short-term disability income plans. Its effects may be illustrated by data from a Conference Board report published just prior to this law's passage.[2] That report indicated that 60 percent of the short-term disability plans surveyed had no provision for pregnancy benefits.

- In 1978, too, Congress enacted Amendments to the Age Discrimination in Employment Act (ADEA). Beyond the principal purpose of these amendments to change mandatory retirement rules—resulting in the shift of corporate mandatory retirement age to 70—coverage of most benefits was extended for those employees who continue working past age 65. (The primary pension plan need not accrue or pay benefits, or compensate actuarially for not paying them, when an employee continues to work after 65.) The amended ADEA allows for some differential treatment related to age, if it is based on documented cost differences. This exception is important for life insurance and for long-term disability insurance because age is an "actuarially significant factor in plan design" for these coverages.

- Voluntary wage and price controls were also instituted in 1978. Under the pay guidelines, the adoption of some benefits improvements—such as dental insurance—may have been delayed in some companies by the competition that was created between direct and in-

[1]Mitchell Meyer and Harland Fox, *Profile of Employee Benefits*. The Conference Board, Report No. 645, 1974.

[2]Mitchell Meyer, *Women and Employee Benefits*. The Conference Board, Report No. 752, 1978.

mandated increases in contributions for, say, spouses' health insurance coverage. Certain kinds of plan provisions—such as "reasonable and customary" surgical reimbursement or final average pay-based pensions—were permitted to absorb costs outside of the standard, while others—such as fixed surgical schedules and career-average pension plans—could not. This fact could influence the future course of benefits planning whenever managements believe reimplementation of controls will be likely.

Inflation and Taxes

Inflation has occupied much of the attention of employee benefits planners as consumer prices increased by 85.6 percent between 1973 and 1980. Its impact is felt in virtually every part of the benefits package, but especially in health insurance, where the 94 percent increase in health-care prices during the same period often acted like a pincer, as inflation affected both employees' checkbooks and the plans' costs.

Taxes, too, figure prominently in employee benefits planning, beyond the role of sheltering income. Thus the combined social security and hospital insurance tax rate rose from 4.85 percent of covered wages and salaries to 6.65 percent between 1973 and 1981, and the pay to which the rates applied expanded from the first $10,800 of annual pay to $29,700, so that it now encompasses most of the labor force's wage and salary income.

Trends in Benefits Planning

Professional benefits management is apparent from the trends reported in this Profile. In evidence are inventive applications of benefits-planning techniques designed to cope with the multifaceted impact of inflation, with the increasing social security taxation, and with the intervention of other government programs.

One pervasive technique provides employees with the opportunity for additional coverage at little or no cost to the company. This tactic is found in life insurance, and also in some capital accumulation plans.

Health Insurance

The increasing cost of health insurance, fed by both the general inflation and by the increasingly expensive technology of the health industry, leads managements to deal with the escalation on several fronts, while it upgrades and adds benefits at the same time.

Many managements attempt to improve cost-effectiveness by changing both the funding and the structure of hospital-surgical-medical coverage. Such plans are now self-funded, or partly so, by 24 percent of the base-without, a-medical supplement arrangements. The comprehensive plan increased in prevalence from 32 percent to 45 percent in that same period, thereby further extending the principle of employee cost sharing or coinsurance.

Managements dealt with the impact of cost escalation on the employee's bills through two kinds of change to existing plans. They introduced the "coinsurance cap," an absolute limit on the amount of coinsurance expense an employee must sustain during a benefit period—24 percent of the plans now apply such a cap. The lifetime limit on the expenses the plan can be expected to pay was increased dramatically, too; in the median plan it is $250,000 now, but in 1973 only one plan in ten allowed even $50,000.

Concomitantly, the trend to absorbing the increasing charges of hospitals and surgeons continues. The acceptance of hospital charges for semiprivate accommodations is now fact in 88 percent of the base plans, up from 73 percent in 1973. Similarly, "reasonable and customary" surgical fees, without dollar limit, are acceptable by 48 percent of the plans as compared with just 22 percent in the earlier survey. The widespread maintenance of the $100 deductible continues, despite inflation's erosion of its effectiveness, a passive aid to the employee.

While companies were making compensating improvements, they also added benefits. Dental insurance, which had been adopted by just 8 percent of the 1973 sample, is now included in 41 percent of the employee benefits packages.

Basic coverage improvements continue, too, in a kind of "mopping-up" process that has many of 1973's lower range plans increasing the duration of hospital coverage. Now the lowest plan in the middle 50 percent range covers nonoffice employees for the same period of hospitalization as in the median plan—120 days; for office employees, the improvement is less spectacular, but their 100 days of coverage is also a substantial increase over the 70 days that applied to both groups in the earlier report.

Disability Income Benefits

One consequence of a highly developed medical technology is that more people survive severe illness than ever before, but long recovery periods and increased numbers of total disabilities often result. Developments in disability income benefits reflect management's attempts to deal with the income needs implied by such disabilities.

The spread of long-term disability income plans continues: these were started in the 1960's for managers, extended to the clerical force, and, to some extent, to

and 33 percent, respectively. The shift from completely employee-paid coverage initially to full company payment continues, too; 56 percent of these plans are company-paid now, up from 48 percent in 1973.

Intended primarily for total and permanent disability, long-term disability plans generally come into play only after disability has continued for a specified period, typically six months. Consequently, short-term disability plans are often adapted to deal with moderately extensive disabilities. Somewhat over half of the noninsured sick-pay plans provide for increased benefits for long-service employees; the median plan provides for maximum benefit periods of 26 weeks. Similarly, accident and sickness insurance also typically covers up to 26 weeks of disability.

Retirement Income

One result of inflation, rising taxes, and changing social security benefits is a transformation of the pension benefit. When based on earnings, benefit calculations are now generally related to final average earnings—the prevalence of this practice has increased, since 1973, from 74 percent to 80 percent of the plans. More and more, however, these final pay pensions and, to some extent, career-average pensions, too, are being calculated with an offset or deduction for the employee's (primary) social security benefit. Now, 64 percent of the final pay pensions are subject to offsets for social security, a substantial increase since 1973 when just 40 percent were reported to have them.

Another transformation of the pension plan affects the benefits of people who voluntarily retire early. The actuarial equivalent to the accrued benefit, which applied to 78 percent of the 1973 plans, has largely disappeared among the surveyed companies. The full accrued benefit now applies at age 62 in 36 percent of the plans and at age 60 in 11 percent, while other plans provide median early pensions equivalent to 80 percent of the accrued pension.

Post-retirement erosion of pensions has led about half of the companies to increase retirees' pensions, on an ad hoc basis, one or more times since 1973. Managements still shun formal indexation; only 4 percent have plans that tie benefits to a price index, just as in 1973.

Capital Accumulation Plans

A majority of the companies now provide, in one way or another, for employees to accumulate capital that can serve as a resource to supplement the pension during retirement. Sometimes these plans can serve other purposes, such flexibility varying with the plan. In general, these plans tend to cover office employees more often

quire employees to contribute, with the principal exception of deferred profit sharing. Their widespread use represents a recent blossoming following long periods characterized by small increments of growth.

The case of employee savings plans typifies the trend. Their prevalence has doubled since 1973, from 18 percent to 35 percent of the companies. Stock purchase facilities, of one kind or another, are now available in 42 percent of the companies, up from 32 percent in 1973.

During the same period, deferred profit sharing plans' incidence declined from 30 percent to 23 percent. About half of these serve as the basic retirement income plan, half as supplementary capital accumulation plans.

TRASOPS

Tax Reduction Act Stock Ownership Plans (TRASOPS) have been adopted by many companies that have substantial needs for continuing supplies of investment funds and that qualify for investment tax credits under the Internal Revenue Code. These plans are especially useful to the electric and gas utilities, 71 percent of which reported having them.

Death Benefits

Life insurance equivalent to two years' salary is available in the median plan, as it was in 1973, but that is changing and more companies now provide this much (43 percent of this sample as compared to just 25 percent in 1973). This is apparently a cost-effective addition, since it is provided largely through voluntary supplements for which employees pay at least part, if not all, of the associated premium. The incidence of this option has increased to 47 percent of the sample from 36 percent.

The long-term trend to introduce income benefits for survivors of employees who die in service was spurred by two developments during the period. One, a provision of the Employee Retirement Income Security Act of 1974, extended pension protection to the employee's surviving spouse, in the event of the employee's death in service after acquiring eligibility for an early pension. This development hastened the trend, documented by the 1973 survey, to provide "widows' pensions," and broadened it to cover spouses regardless of sex. The adoption of survivor income benefits by 17 percent of the companies extends income protection to younger employees' spouses and children.

Severance Pay

Severance pay plans are no more prevalent, at 53 percent of the companies, than in 1973. Furthermore, about 60 percent of the plans are designed essentially to deal

substantial benefits when a career employee's tenure is severed. The median plan of this type provides for benefits of up to 20 weeks after 20 years of service.

Time Off with Pay

It takes just three words to sum up continuing paid-time-off trends—"more leisure sooner." Certainly this describes the changes in vacation provisions that are being made. A five-week maximum annual allowance is now typical (median) for nonoffice employees, and it applies widely to office people as well. Service requirements are coming down fast so that four weeks of vacation typically is available five years sooner than it was in 1973. A three-week vacation can be had after just seven or eight years, on the average (median), and this appears to be but a way point in the descent from ten to five years.

Paid time off for civic duties and personal business remains largely as it was in 1973, with allowances for jury duty and funerals virtually universally made. However, benefit change in the interest of rationalizing policy is occurring in this sphere, too, as many managements substitute personal floating holidays for the practice of allowing time off for religious observance upon request. The floating holidays increased in prevalence from 13 percent of the companies in 1973 to 40 percent now, while religious time is allowed by just 25 percent of the companies, 10 percent fewer than in the earlier survey.

Type of Business Divergencies

Employee benefits development is an uneven process, and variations from typical practice abound. Some types of business tend to lead in change, while others lag; and some have unique traditions. Several divergencies are indicated in individual subject chapters, but some of the more notable ones are highlighted here:

- *Large manufacturing* companies often lead in introducing liberalized benefits; dental insurance and comparatively early eligibility for three- and four-week vacations illustrate this point.
- The trend to comprehensive medical insurance is led by the *insurance companies,* while its lowest incidence is found among the large manufacturers.
- *Financial businesses*—commercial banking and insurance—require employee contributions for health insurance coverages more often than do other groups. This carries over to dental insurance—64 percent of the plans in these businesses require employee contributions to participate, almost twice the 35 percent with this requirement generally.

shareholders, and now it uses Tax Reduction Act Employee Stock Ownership Plans (TRASOP) to raise investment capital; 71 percent of these companies have such plans, far more than in any other type of business studied.

- *Banking*—about one bank in four provides for earlier eligibility for three- and four-week vacations for their *managers* than for other employees.

Geography

Geography sometimes plays a role in explaining benefits variations. Thus, for example, dental insurance is especially widespread in the Pacific states, where 70 percent of the companies have plans.

Paid time-off practices also vary with location. The longest maximum vacations—five weeks or more—are more widespread in the Middle Atlantic states and in the North Central region. The shortest service requirements for the three-week vacation—five years or less—are most common in the Middle Atlantic, New England, and Pacific states.

New Programs

The principle underlying such optional coverages as additional life insurance and employee savings plans is that the employee chooses coverage that he or she deems necessary, and pays a price for the choice. This principle is extended to company-paid benefits in "cafeteria benefits." Such programs allow the employee to choose among alternative benefits, and the passed-over benefits are the price paid for the alternatives selected. When one alternative is cash, the analogy is complete (if the tax effects of choosing cash over a nontaxed or tax deferred benefit are ignored).

"Cafeteria benefits" plans have been slow to spread following elimination of Internal Revenue Service objections by the Revenue Act of 1978. In the surveys for this report, companies were asked the broad-based question: "Do you have, anywhere in your company, a *'cafeteria benefits'* plan; that is, a program that allows the employee to choose among two or more benefits with respect to part (or all) of the *company's allotted contributions* for his or her employee benefits?" Just 20 of the 1,368 companies indicated having such a plan, but another 87 noted that they are considering establishing one.

Another proposal, for group prepaid legal services insurance, has not been adopted by many companies. Just 6 of 691 surveyed companies reported having such a plan, and four of those are reported by insurance companies.

Chapter 2

Health Insurance

Profile

The average survey company provides a base hospital-surgical-medical expense plan and a supplemental major medical expense plan for employees and their dependents. The major medical part of this package exhibits these features:

- **cash deductible of $100;**
- **coinsurance: 80 percent paid by the plan, 20 percent by the employee;**
- **maximum major medical expense benefits, over and above the benefits paid by the base plan, amount to $250,000 for both office and nonoffice employees.**

Base plan benefits are substantial, as the following typical elements illustrate:

- **full charge is paid for typical semiprivate accommodations, for**
- **up to four months of hospitalization; plus**
- **surgical expenses covered by the plan are fully reimbursed if the charge meets a "reasonable and customary" test, except in the states of the South Atlantic and South Central regions, where the fee schedule prevails.**

It is probable that the average company soon will be contemplating a trade-in of its base plus supplement arrangement for a comprehensive medical expense plan, if such a shift is not already under consideration.

The average company's health insurance program covers mental illness and treatment of drug and alcohol addiction, whether or not the treatment is performed in a hospital. Cases of drug and alcohol addiction are subject only to the general plan limits imposed on other illnesses. Mental illness is subject to special expense limits.

The health insurance package is financed for the employee's own coverage entirely by the company, while employees share the premium for dependents' coverage with the company.

The typical company funds the health insurance plan through a private carrier.

The leading edge company typically has a plan that adds to (or substitutes for) the average health insurance program's elements these features:

- **provides hospital-surgical-medical coverage through a comprehensive medical plan;**
- **limits the amount of coinsurance payments an employee must bear ("coinsurance cap");**
- **has a dental insurance plan;**
- **has a prescription drug plan;**
- **is, or soon will be, under pressure to consider the adoption of either an optical plan, an eye refraction plan, or a hearing-aid plan.**

The leading edge company assumes the full cost of health insurance, for both employee and dependents' coverage, for the hospital-surgical-medical expense plans, and for other programs—such as the dental plan—as well.

Basically, the "leading edge" company self-funds (self-insures) the comprehensive medical plan, at least in units with large claims volume.

HEALTH-BENEFITS PLANNING, today, is heavily committed to solving inflation-induced problems. The cost of health care increases for both employees and companies, and planners are acting to deal with both sides of that equation. Their actions affect virtually every aspect of the health insurance plan. Change is under way in benefit levels, in payment methods, in funding, and in the structure of the plan itself. The evidence also suggests that financing trends may be poised for change as well.

Companies have attempted to cope with the impact of inflation on employees by introducing full-service payment methods, by raising allowances and benefit limits, and, to some extent, by permitting inflation to erode the effect of deductibles.

They have attempted to offset rising costs by changing the way plans are funded, by rationalizing the structure of health coverage and, to some degree, by resisting long-term trends to fully company-paid coverage.

In spite of inflation's demands, new benefits are still being added. Dental insurance is a case in point. Other trends have continued, too, for example, the spread of coverage for such contemporary health problems as alcohol and drug addictions and mental illness.

Hospital-Surgical-Medical Coverage

Two distinct techniques have evolved in health insurance planning; the "base plan" and the "major medical expense plan." The latter appears headed for dominance.

The base plan pays expenses for specified services within limits established for *each kind of service.* The major medical plan, on the other hand, defines a broad range of covered expenses, encompassing substantially all services that may be required for the successful diagnosis and treatment of an ailment, and tackles the *whole bill for such expenses* as an entity.

Still widely used in combination—52 percent of the office groups' plans and 58 percent of the nonoffice plans supplement a base plan with major medical coverage—this typical complementary pattern may prove to be transitory, judging from a comparison with the 1973 survey which found that about 65 percent of the plans—for office and nonoffice employees alike—were of this pattern (Chart 2.1).

The major medical technique is being extended further as companies in all types of business eliminate the base plan in favor of one plan to cover all the ground formerly occupied by both the base and supplement (Chart 2.2). This comprehensive medical expense plan, in its purest form, treats every dollar of covered medical expense like every other dollar.

The key element in defining a major medical expense—whether the plan be supplemental or comprehensive—is the deductible amount. The excess expenses over the deductible amount are shared by the plan and the employee. An important difference between the comprehensive plan and the base-plus-supplement combination lies in where the deductible amount comes into play. In the combination, it applies to expenses over and above the base plan's application. The comprehensive plan, in its purest form, applies the deductible to the very *first dollar* of covered expense—the employee must incur this specific amount of expense, and pay it before the plan can pay any benefits. Where there is a base plan, the employee can receive many thousands of dollars of plan-paid care, say as a hospital patient, before the major medical plan's deductible comes into play. The deductible in this case forms a "corridor" of employee payment.

Some comprehensive plans use a corridor type of deductible; 16 percent of the office employees' plans pay a specified dollar amount before the deductible is ap-

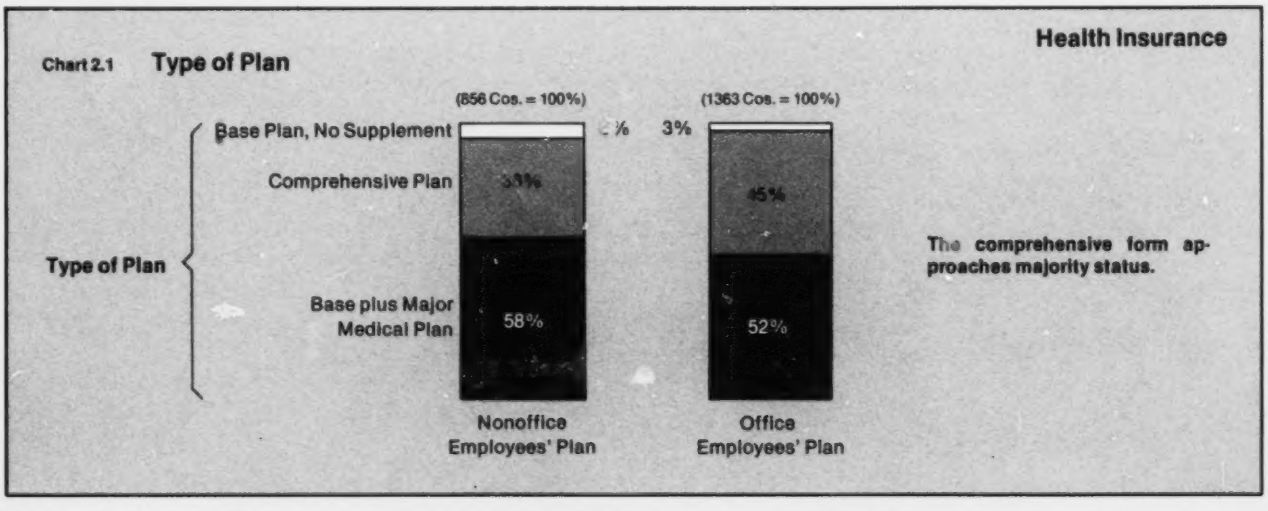
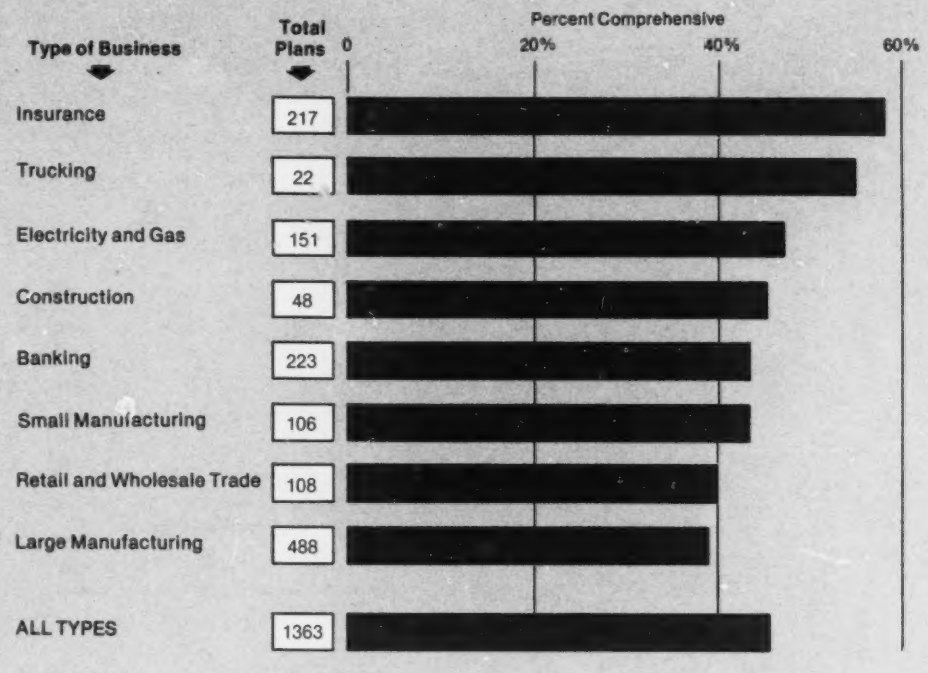


Chart 2.2 **Incidence of Comprehensive Plans by Type of Business**

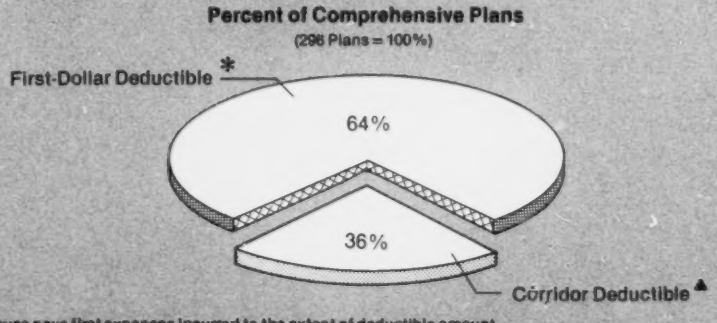


The comprehensive form is fairly evenly represented in all types of business studied.

plied, just about the same incidence as in 1973. The nonoffice plans are similarly unchanged in this respect, with 10 percent using a corridor deductible in both years.

The *typical* comprehensive plan uses a first-dollar type of deductible, however, and this represents a significant change from the earlier year. Twenty-nine percent of the health insurance for office employees (26 percent of that for nonoffice employees) is provided through this form of the comprehensive plan, up from 16 percent in 1973 (11 percent of the nonoffice plans). The significance of this change is underscored by the fact that virtually all of the comprehensive plans introduced since 1973 are of this form, which now accounts for almost two out of every three comprehensive plans (Chart 2.3). In 1973, the comprehensive plans were equally divided, half using a first-dollar deductible, half the corridor type.

Chart 2.3 **Comprehensive Plan: Two Types**

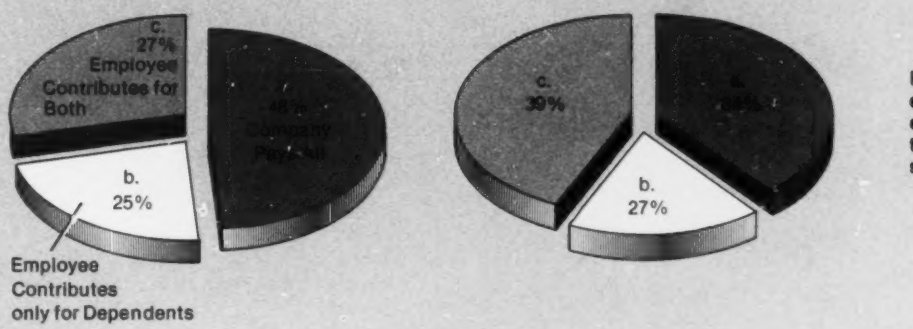


The "pure" form prevails among comprehensive plans.

*Employee pays first expenses incurred to the extent of deductible amount

▲Plan pays a specified amount of the first expenses incurred before the deductible applies

Chart 2.4 **Financing Employee and Dependents' Coverage**



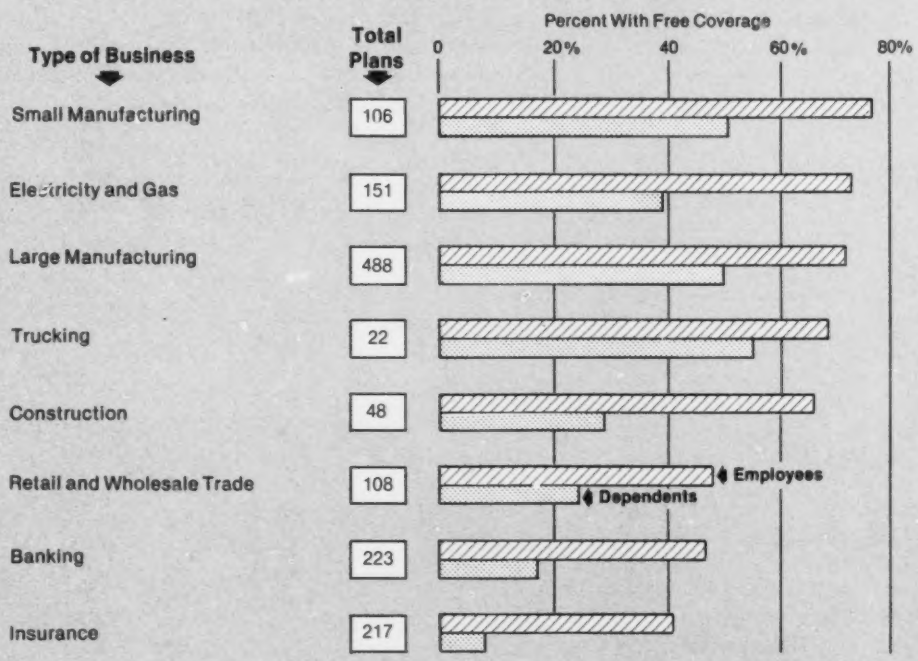
Full company payment for employee coverage but not for dependents' coverage continues to characterize health insurance financing.

Financing

Traditional differences in the way hospital-surgical-medical coverages are financed for employees and dependents are reflected in this survey. In fact, financing patterns are similar to those found in the 1973 survey, although fully company-paid coverages are somewhat more prevalent now. As an example, 61 percent of the office plans cover employees free, as compared to 56 percent in 1973. For dependents' coverage, 34 percent of the plans are paid by the companies (Chart 2.4); some 31 percent were company-paid in 1973.

The company pays the full premium for nonoffice employees' coverage in 73 percent of the plans. This higher level of prevalence, compared with office plans, is more a reflection of different policies in financial and nonfinancial businesses than discrimination between the two groups within companies. Thus, in 66 percent of the nonfinancial companies, office employees' coverage is free—not much different than the 61 percent among

Chart 2.5 **Prevalance of Fully Company-Paid Coverage by Type of Business**



Free coverage predominates in manufacturing and in the electricity and gas business, while the financial groups rely on employee contributions.

nonoffice plans—which reflects only the policies of these businesses (Chart 2.5).

To some extent, the dominance of full-company payment in the nonfinancial businesses reflects the impact of unions. Among collectively bargained plans, 77 percent provide free employee coverage, while 64 percent of the nonbargained plans do so.

When employees contribute for their own coverage, as well as for dependents, they pay 25 percent of the premium, on the average (median). In those plans that call for employee contributions on behalf of dependents only, their share is 47 percent.

Funding

The attempt to control the escalating cost of health insurance has led many companies with substantial claims volume to turn to self-funding. Since 1973, the incidence of this strategy, often referred to as "self-insuring," increased from under 7 percent to 19 percent, and an additional 5 percent report self-funding part of the hospital-surgical-medical coverage, while a private carrier or Blue Cross-Blue Shield insures the remaining portion. Thus, one-plan-in-four is now at least partly noninsured.

Insurance by a carrier still predominates. It is the most widely used single funding medium; 48 percent of the plans are funded solely through insurance. Additionally, 15 percent insure part of the coverage, and provide the balance either through Blue Cross-Blue Shield or by self-funding. That is, 63 percent of the plans are at least partially insured.

A Blue Cross-Blue Shield Association is the sole funding medium for 17 percent of the plans, and it shares funding with an insurance carrier in another 10 percent, and with self-funding in another 2 percent. In all, then, the Blues provide some funding for 29 percent of the plans.

Health Maintenance Organizations

Among the 1,368 companies reporting in this study, 41 percent have offered employees the option of membership in Health Maintenance Organizations (HMO's). Where offered, only a small part of the work force usually participates; the median company reports that about 3 percent of its employees do so. The lowest of the mid-50 percent indicates HMO participation is about 1 percent, and the high of that middle group estimates 10 percent participation. No one participates in 14 percent of the offering companies, but somewhat over 2 percent note that half or more of the work force is in an HMO.

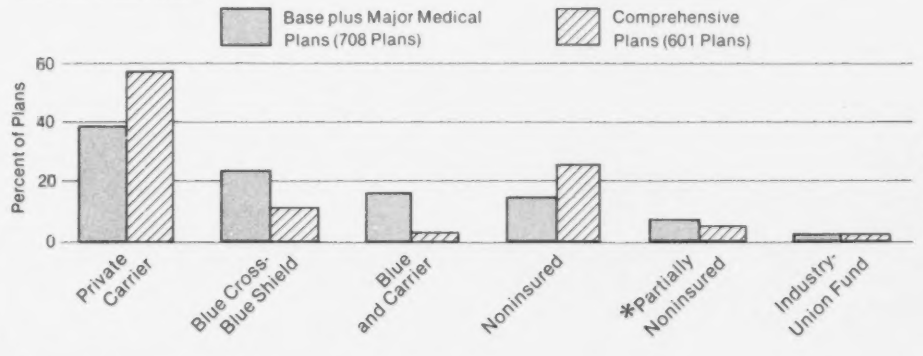
Type of Business

The three funding media find differing degrees of acceptance among the eight business groups analyzed. Self-funding is most widely reported among large manufacturers, insurance carriers, and truckers. Some 24 percent of the large manufacturers say it is the sole method employed, while another 8 percent self-fund part of their coverage. Among the insurers, 30 percent of the plans are entirely self-funded, and 1 percent are partly so. The truckers' plans are entirely self-funded in 18 percent of these companies, and another 23 percent share the funding with insurers.

Plan Type

The two principal types of plans employ the funding media to different extents. Comprehensive plans use self-funding (29 percent)—more than the base plus supplements do (21 percent). Similarly, the Blues are more common among the latter than among the comprehensive plans (12 percent)—(Chart 2.6).

Chart 2.6 **Plan Insurers**



Private insurance carriers continue as the predominant medium, but self-funding is now important minority practice.

* Insured part usually by a private carrier

Base Plan Benefits

Employees gain from plan improvements, of course, whether adjustments are made to accommodate inflation or to add coverage. Both varieties are present in this survey. The maximum length of a hospital stay subject to reimbursement under the median plan is 120 days, as in 1973, but improvements were made in many plans. The most modest ones, represented by the lowest of the middle 50 percent, were improved for both office and nonoffice employees; both groups were eligible for 70 days' coverage then, but now there is usually 100 days of coverage for office employees and 120 days are allowed for the nonoffice group by that plan. The high plan in this middle 50 percent shows office employees to have the same 365 days as nonoffice people—reflecting the office's "catch-up" to the nonoffice group.

Increases in room and board charges are absorbed by more plans as the trend to paying the hospital's usual charge for semiprivate accommodation continues; 88 percent of the plans now specify this payment method, as compared to the 73 percent reported in the earlier study (Chart 2.7).

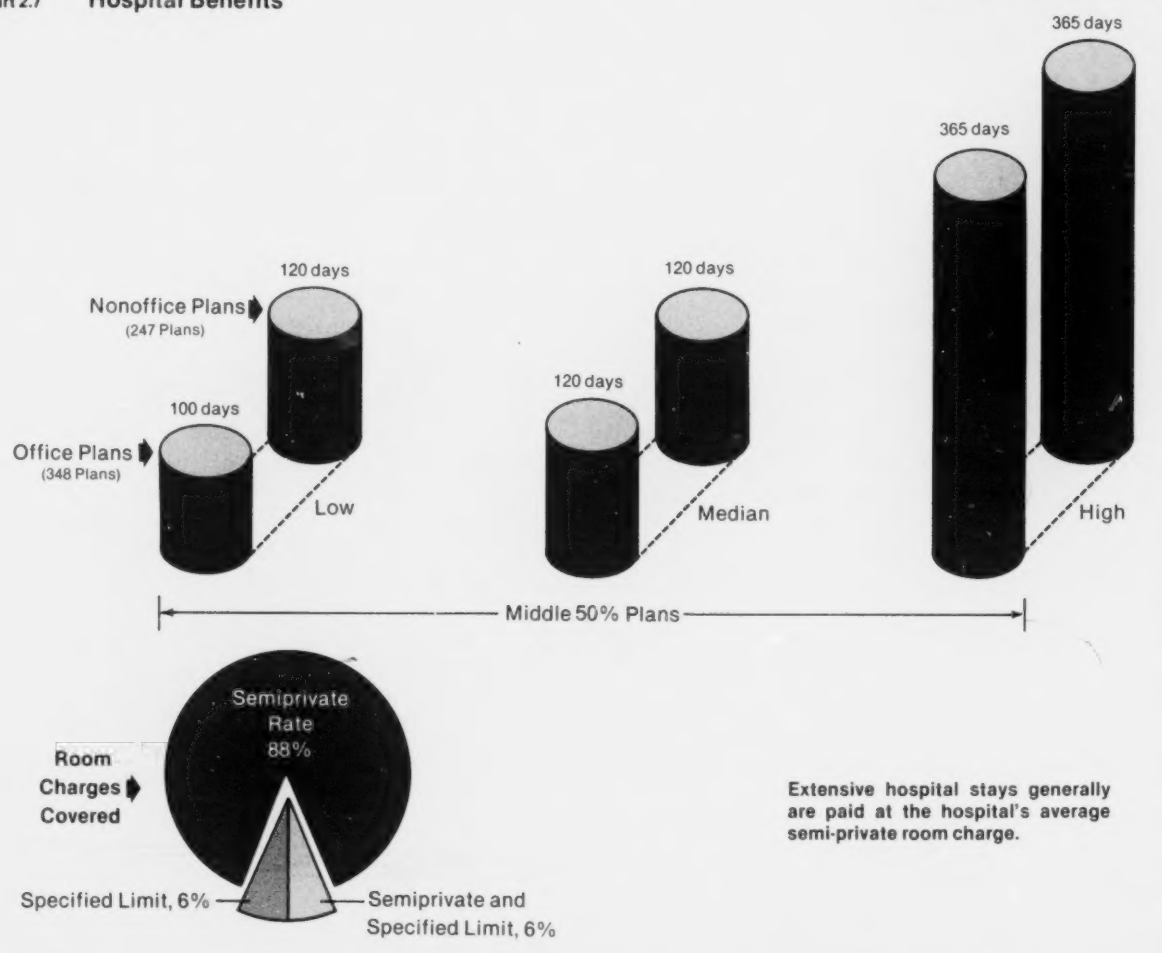
A similar trend to full payment of surgeons' fees that had just started in 1973 is substantially advanced. The physician's "reasonable and customary" charge, rather than the traditional schedule of benefits, is now specified in 48 percent of the base plans—increasing from 22 percent in 1973. This reasonable and customary method is employed most commonly in the Northeastern states and on the West Coast. It is least in use along the South Atlantic and in the South Central states (Chart 2.8).

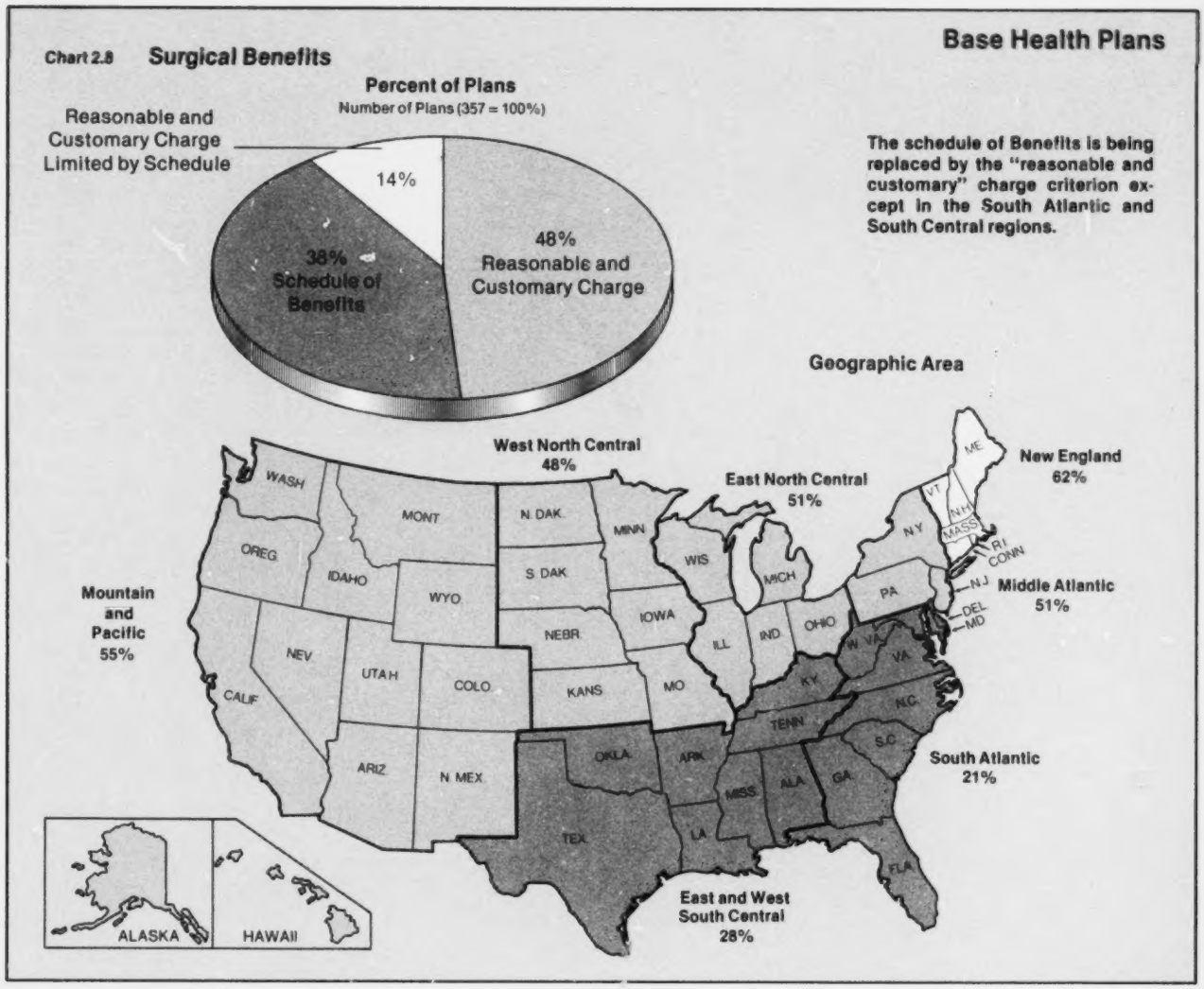
Major Medical Plan Benefits

While important structural change is displacing the base plan, key elements of the major medical approach that is being substituted are succumbing to inflation's pressure.

The $100 deductible remains substantially intact

Chart 2.7 **Hospital Benefits**





despite escalating medical bills, thereby reducing its effectiveness, although some plans have introduced higher amounts. Only 13 percent of the plans report deductibles in excess of $100, although this doubles the 6 percent found in 1973.

On the other hand, substitution of comprehensive plans for base and supplement plans appears to be raising the proportion of comprehensive plans with deductibles of $100, as the amount is left unaltered in the change (Chart 2.9). Thus, on a proportional basis, half as many $50 comprehensive-plan deductibles are reported as in 1973, while the $100 amount increased from 35 percent to 52 percent. Among the supplemental plans, the $100 amount still predominates, exhibiting substantially the same level of prevalence (74 percent) as it did then (80 percent).

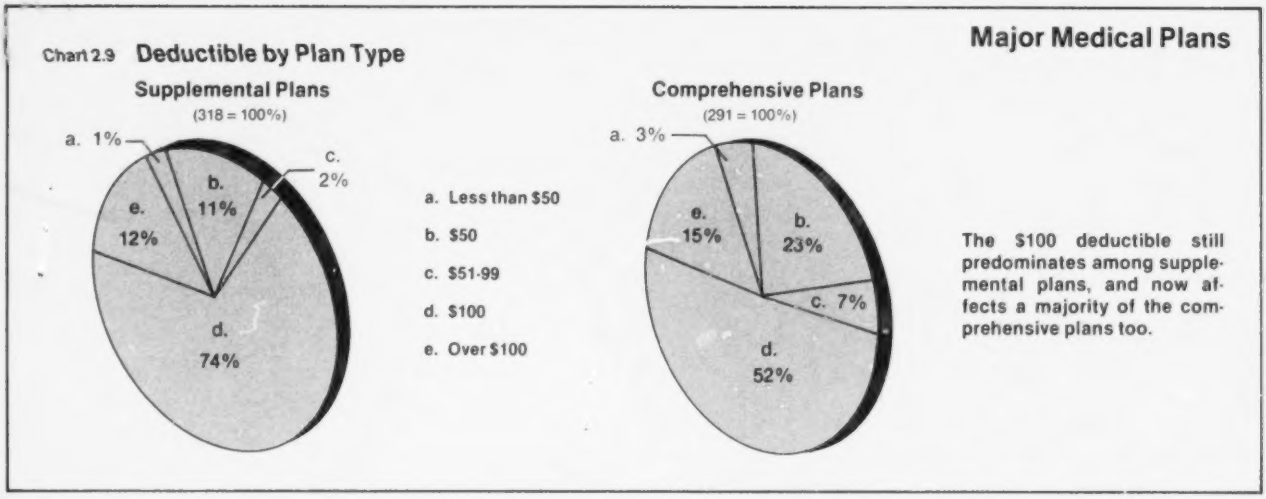
Coinsurance

The other key element of the major medical approach, coinsurance, is compromised by a positive response to inflation. As medical expense levels rise, employee coinsurance becomes more burdensome, and so, many plans have introduced the "coinsurance cap," a limit on the dollar amount of an employee's coinsurance share during a benefit period. Beyond that limit, the plan pays 100 percent of covered expenses. Some 24 percent of the plans have coinsurance caps, virtually all introduced since the 1973 survey (Chart 2.10).

The plans's normal share of coinsurance continues to be 80 percent, although only 84 percent specify this share now, as compared to 90 percent in 1973. Some plans have shifted to higher rates, and now 12 percent pay more than 80 percent.

Maximum Benefits

Major medical plans' benefits limits bear little resemblance to the 1973 levels. While the typical plan still sets the limit on lifetime benefits with provision for



renewal, the amounts involved are drastically altered. Thus, although just 10 percent of the plans specified maxima higher than $50,000 in 1973, and only a handful had limits as high as $250,000, the latter amount is typical of the plans in the current survey. Among the supplemental plans, 61 percent specify at least $250,000, as do 73 percent of the comprehensive plans (Chart 2.11).

Addictions and Mental Illness

Hospitalized treatment for drug withdrawal, alcoholism and mental illness are now generally covered by health insurance. Mental illness has long been included almost universally in the covered illness category; 97 percent of the companies in the present sample do so. Drug withdrawal and alcoholism coverages are widespread, with 80 percent and 85 percent of the companies making payments for related hospitalization, representing substantial increases in prevalence since 1973. Out-of-hospital treatments for these illnesses are covered by somewhat smaller majorities of the plans—the addictions by about 60 percent, mental illness by 83 percent.

Special limits are often imposed on the benefits payable as the result of these illnesses. The incidence of such restrictions is highly correlated with how widespread the coverage is. Thus, limits are more common among the hospitalized coverages than among the ambulatory coverages; they are more common in mental illness cases than with respect to alcohol and drug addictions (Chart 2.12).

Special Coverages

Concurrently with the shift of hospital-surgical-medical coverage from the base plan's specific coverage approach to the comprehensive major medical approach, other coverages are being introduced as specific plans. The major medical coverages are not all compatible with

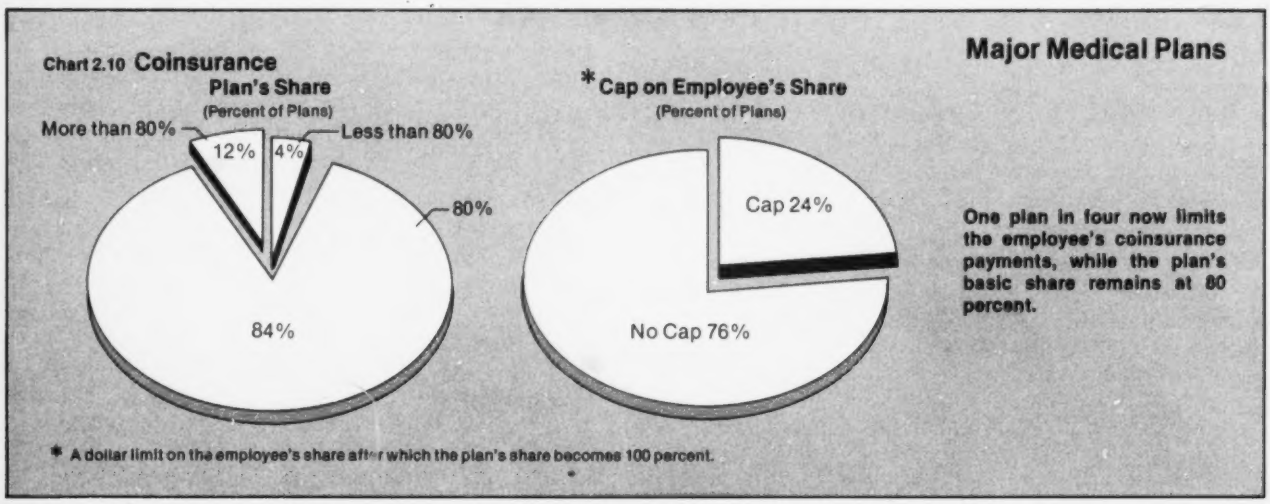
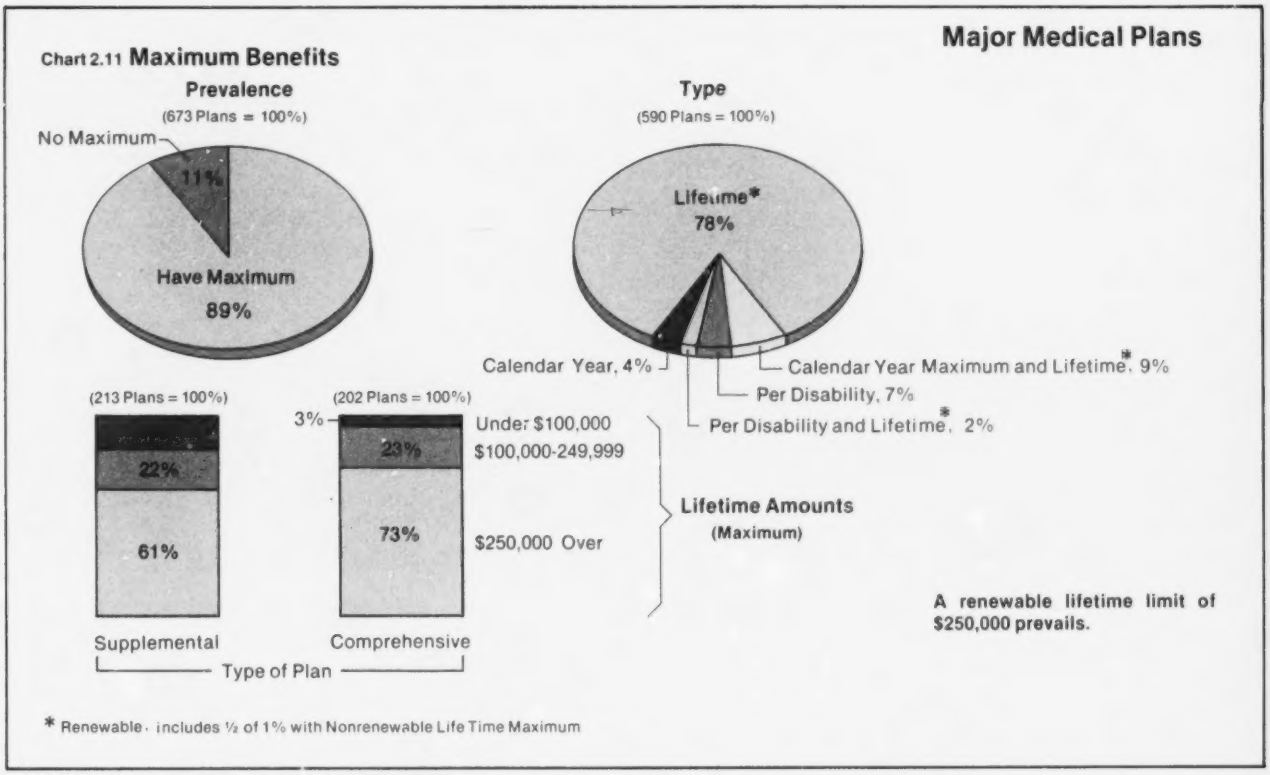


Chart 2.10 Coinsurance
Major Medical Plans
Plan's Share
(Percent of Plans)
More than 80%
12%
4%
Less than 80%
80%
84%
* Cap on Employee's Share
(Percent of Plans)
Cap 24%
No Cap 76%
One plan in four now limits the employee's coinsurance payments, while the plan's basic share remains at 80 percent.
* A dollar limit on the employee's share after which the plan's share becomes 100 percent.



the standard plan provisions and require special rules, as with the addictions discussed in the previous section. The most widespread of the new coverages, dental insurance, puts the argument in perspective.

Early in its introduction, there were strong indications that dental insurance might become just another covered expense in the major medical plan's list, at least in the nonbargained plans. However, the development of this benefit uncovered important differences from other health coverage that have implications for benefit planning. Major elements of this kind are the role of the deductible and the question of prevention.

Dental Insurance

Dental insurance is so popular with both unions and employees that it has become widespread in a very short time. Its prevalence grew from about 8 percent of the sample surveyed in 1973, to 19 percent of a comparable 1975 sample, and to 41 percent here.[1]

Both office and nonoffice employees in the same type of business are covered to the same extent. Except for large manufacturing companies, prevalence is substantially lower among nonbargained plans than where collective bargaining is a factor. The following tabulation illustrates that observation:

		Nonoffice Plans		
Type of Business	*Office Plans*	*All Plans*	*Bargained*	*Nonbargained*
Finance	23%	—	—	—
Large manufacturing	62	60%	60%	58%
Other nonfinancial	33	34	45	19

The incidence of dental insurance is highly skewed geographically. It is most widespread in the West—the Pacific states (70 percent) and, to a lesser extent, in the Mountain states (55 percent). In the states of the North Central region and along the Middle Atlantic its incidence is average (about 43 percent). It is less common in New England and in the South Atlantic states where about 30 percent of the companies have installed it, and it is rarest in the South Central states (16 percent).

Most dental insurance is provided through separate plans, but about 16 percent include dental treatment among the expenses covered by the major medical expense plan, applying that plan's deductible. This practice is important in the financial businesses where 39 percent of the companies provide dental coverage in this way. Elsewhere it is unusual; only about 12 percent of the nonfinancial companies that provide dental benefits do so as a major medical expense.

[1]The 1975 sample is reported in Mitchell Meyer, *Dental Insurance Plans*. The Conference Board, Report No. 680, 1976.

Separate Plans

Major medical plans aside, most separate dental plans specify a deductible amount, but 34 percent have no such provision. The deductible is most commonly omitted from plans for nonoffice employees in those large manufacturing companies that are subject to collective bargaining—45 percent of such plans have no deductible. The practice is particularly uncommon among financial companies (21 percent), and other firms where collective bargaining is not a factor (28 percent).

In all, 66 percent of the separate dental plans specify deductibles. Usually the amount is either $25 (46 percent) or $50 (42 percent)—(Chart 2.13).

Prevention

Dental health is uniquely responsive to prevention, and preventive procedures are relatively less costly than repairing the results of accumulated neglect. About half of the dental coverage plans in this survey provide incentives for routine preventive care. The principal method for doing this is reimbursement for specified procedures independently of the plan's deductible; however, several plans exempt such treatments from the coinsurance feature, paying the full charge for the employee. Still others reduce the employee's share of coinsurance, paying a larger part of such preventive expenses than they do for restorative procedures.

Financing

Both deductibles and incentives to prevention are intended as cost-reducing measures for the company. Another approach to the cost question—employee contributions—is subject to strong resistance from insurers, on the grounds that dental disease is particularly responsive to neglect, and that since dental health is especially apparent, the risk of biased selection is magnified. Early plans, therefore, rarely provided for

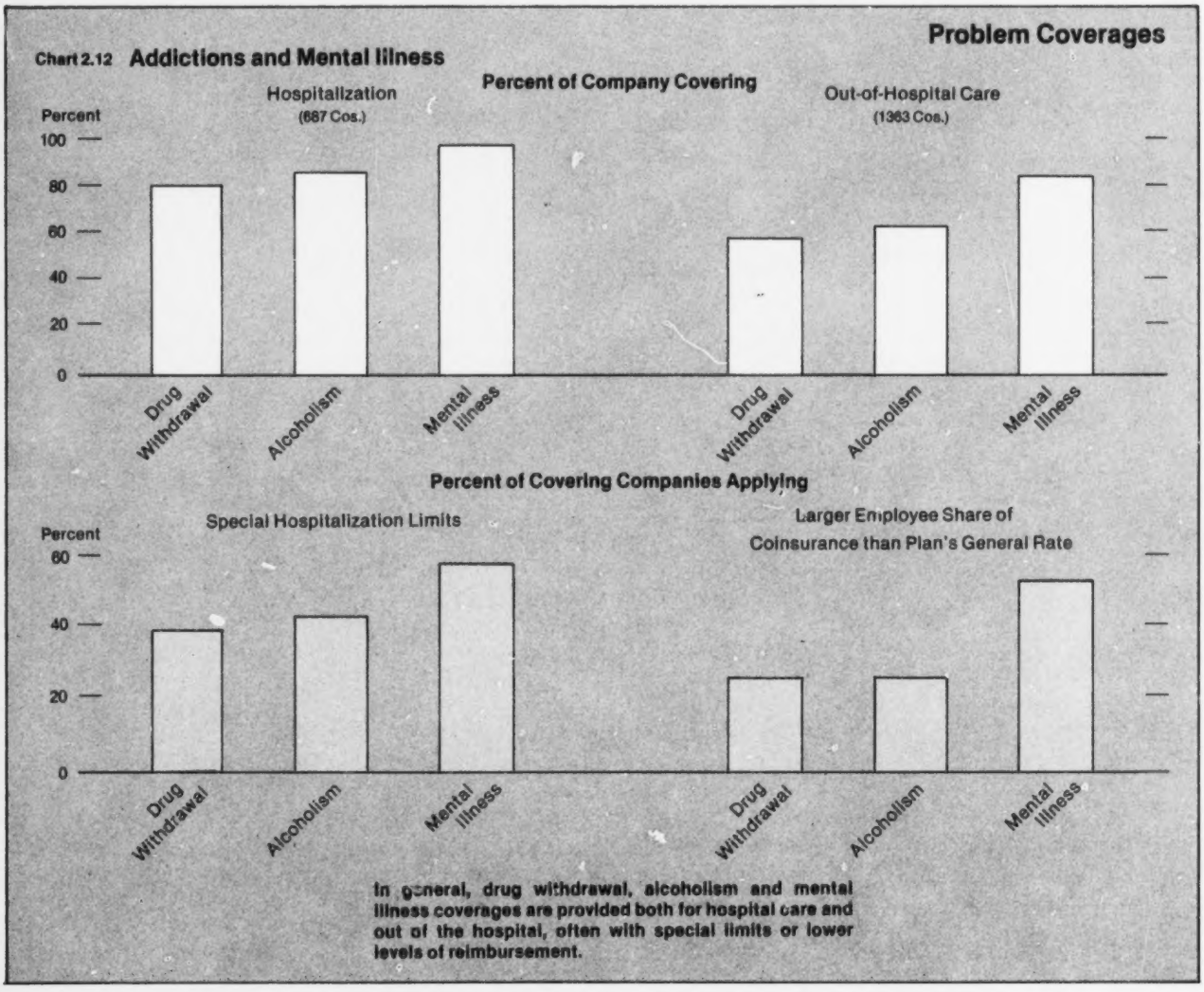
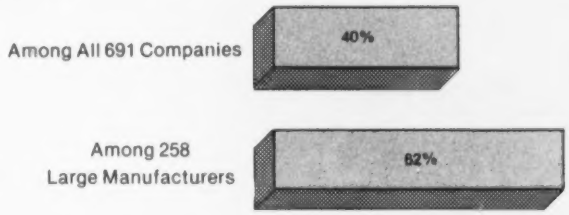
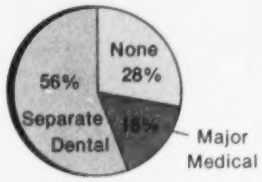


Chart 2.13 Prevalence and Key Features

Prevalence

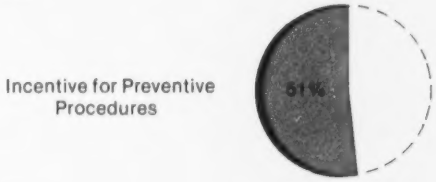


Deductible



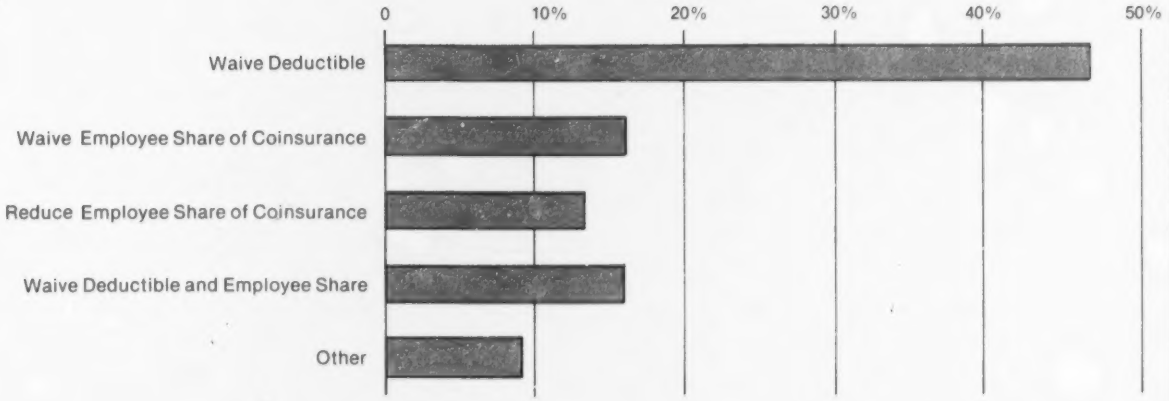
Amount of Separate Dental Deductible

Prevention

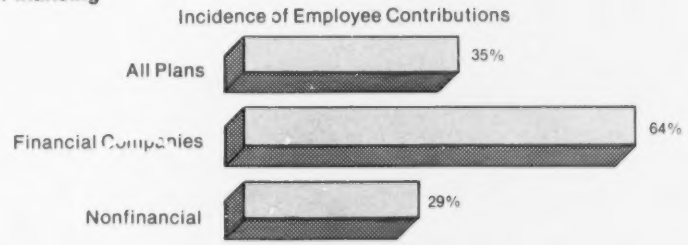


Generally widespread, this coverage is majority practice among the large manufacturers. Provisions reflect diverse approaches to issues of cost management.

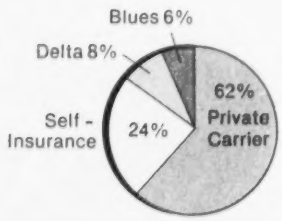
How



Financing



Funding



employee contributions. Now, however, 35 percent of the plans studied here do so. Such a requirement is most prominent among plans provided for employees of banks and insurance companies; 64 percent of the financial institutions' plans call for employees to share premium payments.

Funding

Dental insurance is an appropriate candidate for "self-insurance" because it is characterized by a high volume of comparatively small claims—in fact, 24 percent of the plans are self-funded. The majority, however, are insured by private carriers. A few are funded through either Delta Dental Plans (8 percent) or through Blue Cross-Blue Shield (6 percent).

Prescription Drug Plans

Although generally covered by major medical plans, a family's prescription drug expenses can amount to as much as $200 or $300 or more due to the deductible. Recognizing that most prescription drug expenses are too small to qualify as major medical expenses, unions have sought coverage through separate plans. Now, 18 percent of the companies provide these plans for nonoffice employees, and 12 percent do so for office employees. These levels of incidence, though still relatively small, represent a significant expansion of this coverage since 1973 when only 7 percent covered nonoffice people, and only 2 percent applied it to the office force.

This coverage is most common among nonfinancial businesses, especially the retail and wholesale trade group, 28 percent of which cover their nonoffice employees, and among the small manufacturers, 20 percent of which do so.

Refractions and Appliances

Eye refractions, eyeglasses and hearing aids are the objectives of special plans in relatively few companies. Eye refraction plans are in effect in 8 percent of the nonfinancial companies, optical plans in 11 percent, and hearing-aid plans in 3 percent. These coverages are more common among large manufacturers, in the retail and wholesale trade group, and apparently in trucking, too, although the number of companies is small.

The Annual Checkup

In general, health insurance does not cover routine "well person" physical examinations. Many companies do provide for periodic examination, however, especially for management-level employees. In this survey, 51 percent provide at least some of their managers with periodic checkups, the same as in 1973. The practice applies much less commonly to clerks and nonoffice personnel, with

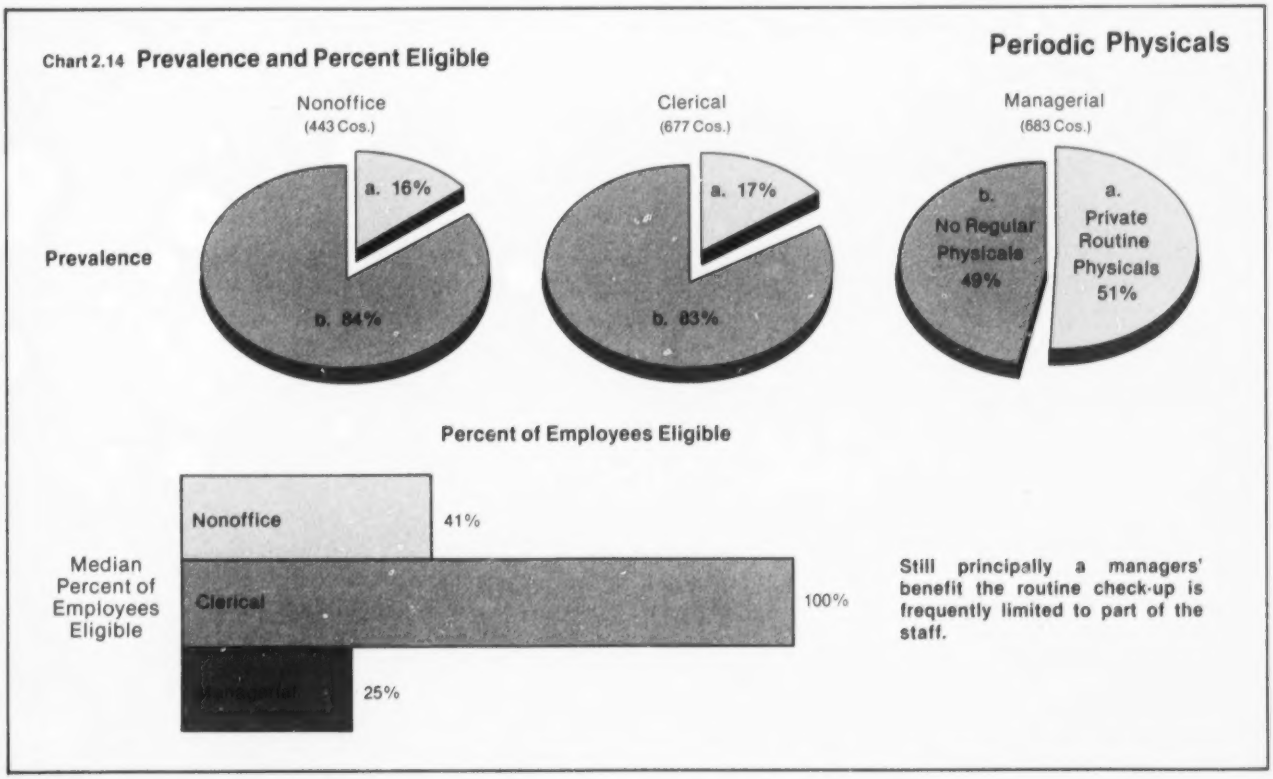
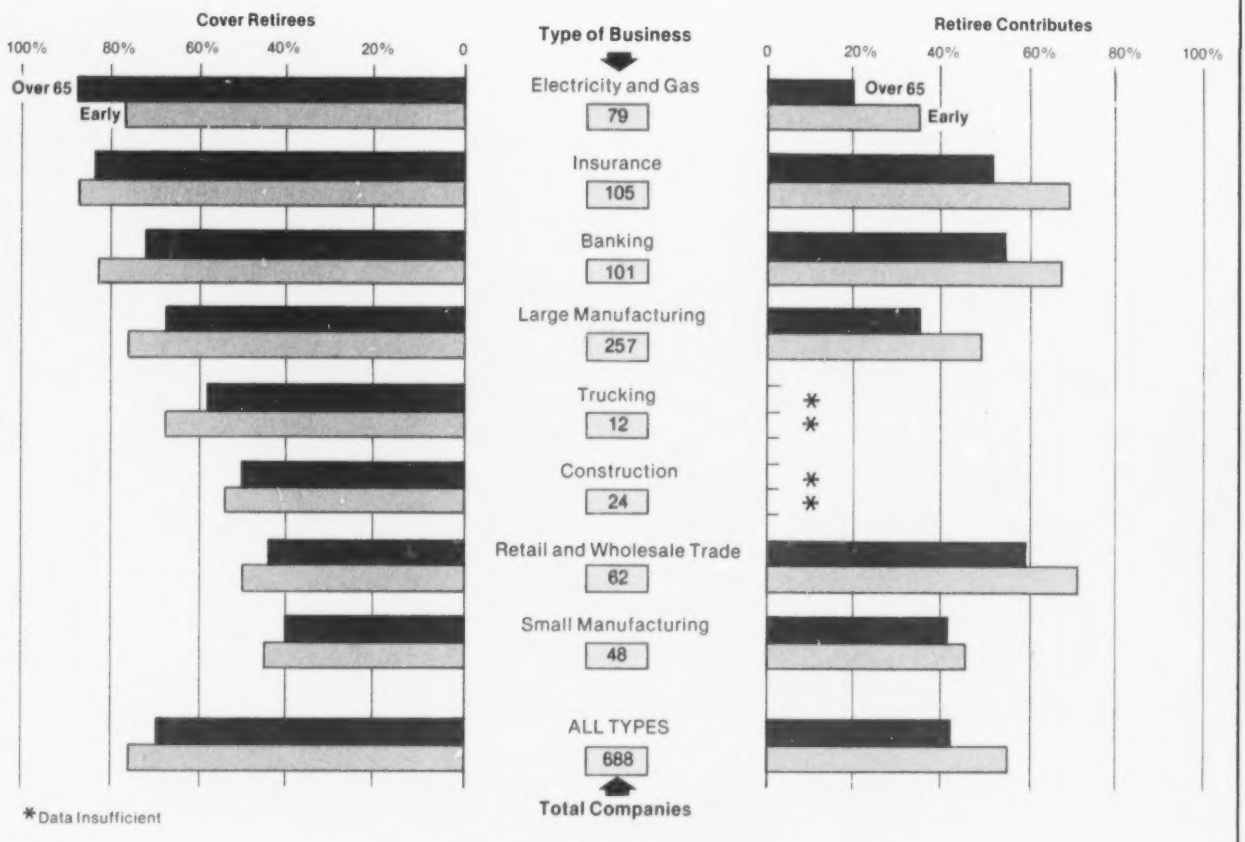


Chart 2.15 **Retirees' Coverage**



Most companies continue some health insurance coverage for normal and early retirees.

about 17 percent of the companies providing examinations for some people in these groups. Apparently, some companies dropped this practice among these two groups since the last Profile survey; in 1973 about 25 percent paid for physicals for these employees.

Although more companies provide checkups for managers, proportionally fewer managers are eligible in these companies that do provide physicals than either the clerks or the nonoffice employees, on the average (median)—(Chart 2.14).

Administration

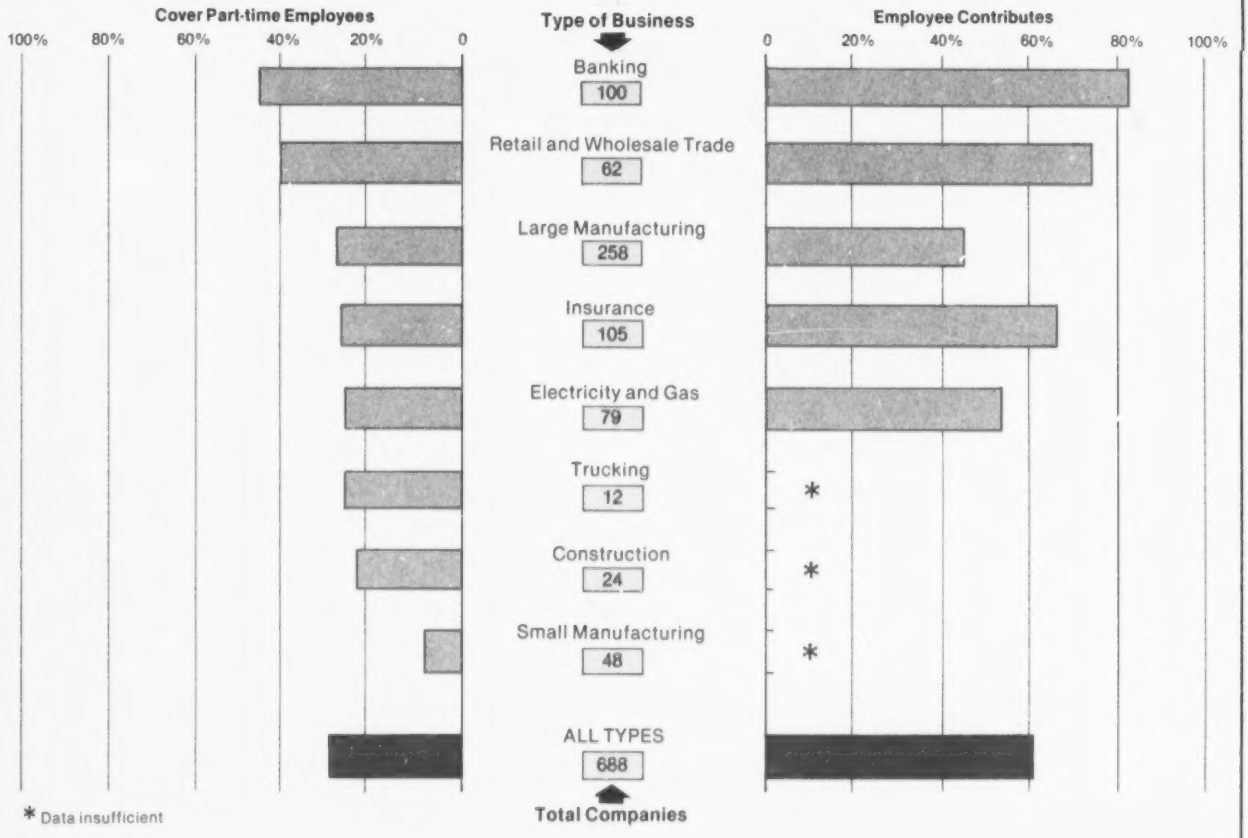
Health insurance plans usually provide a grace period during which coverage continues after severance of employment. Questions often arise, however, with respect to the employee whose pay checks stop even though he or she remains on the payroll. Therefore, the sampled companies were asked whether health insurance is continued when an employee is on unpaid leave, on layoff, or during a strike.

Most companies—85 percent of the financial institutions and 67 percent of the nonfinancial companies—continue health-insurance coverage in the case of an employee on unpaid leave. In 87 percent of these companies, the policy applies even when the leave extends more than 31 days.

Continued coverage is much less common in the case of layoff; only 9 percent of the financial institutions and 41 percent of other companies would continue coverage in that circumstance. Among those few who do, however, 82 percent would continue it even if the layoff exceeds 31 days.

Few companies provide for continued coverage during a strike; only 15 percent of the nonfinancial companies would do this for nonoffice employees—17 percent among the large manufacturers and 18 percent of the utilities.

Chart 2.16 **Part-time Employees' Coverage**



Minority practice covers part-time employees.

Retired Employees

Some 68 percent of the sample extends health-insurance coverage for normal retirees, a substantial increase over the 48 percent reported in 1973.

The practice is most widespread among the utilities, the financial businesses, and in large manufacturing companies, but even the lowest level of prevalence is 40 percent—of the small manufacturers—(Chart 2.15).

Health insurance is somewhat more frequently extended for early retirees; 76 percent of the companies do this. The electricity and gas business is the sole exception; early retirees there are a little less likely to have this coverage than are normal retirees. Since health insurance is designed to supplement Medicare after the age of 65, its cost for normal retirees is generally much lower than for early retirees, for whom there is no such other coverage.

Part-Time Employees

Health-insurance coverage is extended to part-time employees in 29 percent of the surveyed companies. This practice varies widely from one type of business to another, ranging from 44 percent of the banks down to just 8 percent of the small manufacturers (Chart 2.16).

Chapter 3

Disability Income Benefits

Profile

The average company surveyed provides its nonoffice employees with accident and sickness insurance for short-term disability, and a disability pension is available for long-term disability. Typically, the accident and sickness insurance is fully company paid, and it provides weekly benefits of 60 percent of pay—up to $120. This benefit is payable for 26 weeks beginning after one week of disability. The disability pension is available to qualified employees after ten years of service.

For office clerical employees and managers, disability income typically is provided through noninsured sick pay, long-term disability insurance and, perhaps, a disability pension. The sick-pay plan continues salary payments for a period determined largely by length of service. Benefits are provided for up to 26 weeks after ten years of service. The long-term disability insurance is provided entirely at company expense; it provides for an income standard of 60 percent of salary—up to $2,500 a month—after six months of disability. Benefits are payable until retirement age—then the disability pension becomes payable.

The leading-edge company provides disability income protection from the first day of disability through an integrated combination of short-term and long-term plans that apply to all employee groups. Short-term disability income replacement is at full salary; and long-term disability insurance ensures an income from company-supported sources equal to two-thirds of pay, continuing for life.

OVER THE LONGER term, management's activity in this part of the benefits package has centered on providing support during extended illness. The adoption, for example, of long-term disability (LTD) plans continues at a steady pace, and companies that have had such plans are assuming more of their cost. In short, this coverage is taking its place as a standard company-paid element of the package, at least as applied to white-collar employees.

Federal legislation has recently focused attention on maternity benefits—first in initial compliance with the Pregnancy Disability Act, and later as the result of ending the legally imposed freeze on certain benefit changes that might be designed to compensate for the added cost of mandated pregnancy benefits.

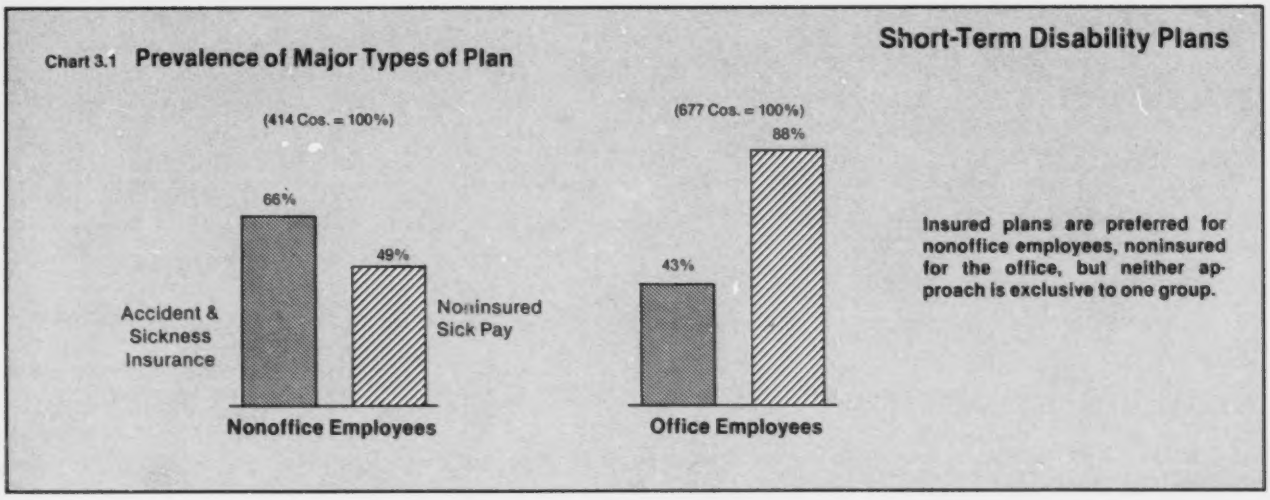
Management's long-term concern is the increasing frequency with which people are hospitalized for serious conditions followed by more or less extensive periods of recuperation. This consequence of extended longevity, together with improved medical and surgical techniques, affects the older groups of employees. This association with age often means that a relatively long-service employee faces the prospect of an extensive period of disability.

Accident and Sickness Insurance

Traditionally, many companies prefer to provide short-term disability income for nonoffice employees through insured accident and sickness plans, and 66 percent of the firms in this survey do so (Chart 3.1). These plans are especially prevalent in manufacturing, where production and maintenance people are insured by 80 percent of the companies. Relatively few (only 22 percent) of the electric and gas utilities use this insurance. In the retail and wholesale trade group, prevalence is 63 percent; as it is among the ten truckers, six of which have such plans. Only one of the 11 construction firms reporting about on-site workers has this plan.

Often considered a blue-collar benefit, these plans frequently extend coverage to office and clerical employees where they are prevalent for nonoffice employees, as in manufacturing and trade, although to a lesser extent. The

Chart 3.1 **Prevalence of Major Types of Plan**



generally lower level of prevalence for office employees—covered in only 43 percent of the companies—reflects in part the policies of the financial institutions. There, only 31 percent protect income against short-term disability in this way. This compares with 49 percent of the nonfinancial companies.

Financing

As the 1973 Conference Board report showed, for some time the cost of accident and sickness insurance has generally been borne entirely by the company. The prevalence of fully company-paid coverage, in fact, appears somewhat further increased; 80 percent of the plans for nonoffice workers and 71 percent of the office plans require no contributions from employees, about 5 percent more than the 1973 survey disclosed for each group.

Collective bargaining continues to be associated with company-paid coverage: As in 1973, 84 percent of the nonoffice employees' plans that are bargained with unions are free to the employee, but only 50 percent of the nonbargained plans are. Among those plans that do require employee contributions, the median employee share is one-half of the premium. The middle 50 percent of these plans require employees to assume 25 to 100 percent of the premium (Chart 3.2).

Benefits

Typically, benefits are payable for as many as 26 weeks under these plans as applied both to nonoffice and office employees. This maximum dominates the data, accounting for 66 percent of the nonoffice plans and 62 percent of those for office employees (Chart 3.3).

Most plans either limit the weekly benefit to a specific amount, or to a percent of pay, or both. Among nonoffice plans, the dollar limit is widespread, with 78 percent having such a limit, while 57 percent specify a percent of pay. The office plans reverse this pattern: 68 percent apply percent-of-pay limits and 59 percent use dollar amounts. The median weekly dollar amount is $120 for each group. The middle 50 percent range from $95 to $150 in nonoffice plans, to $170 for plans affecting clerical people, and to $231 in managers' plans.

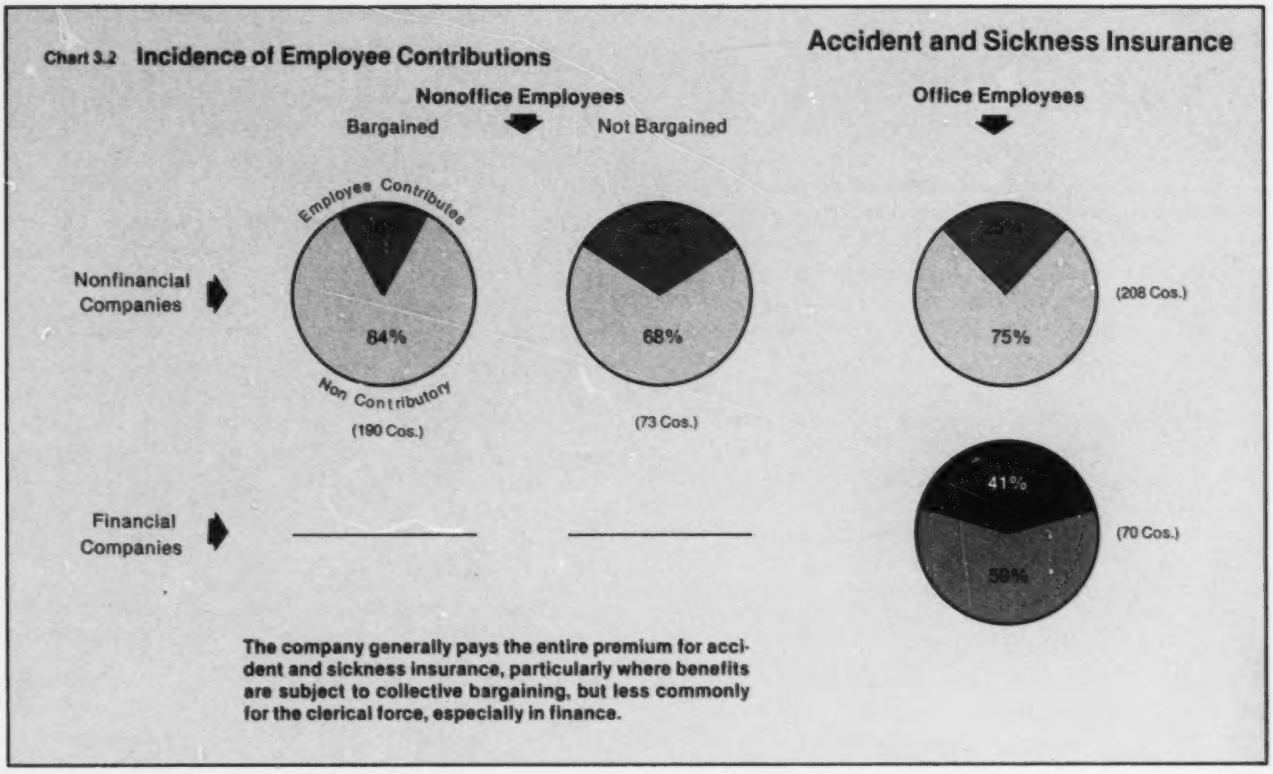
Percent-of-pay limits in nonoffice plans average (median) 60 percent; the clerks' and managers' plans are at 65 and 70 percent. The highest paying (upper 25 percent) of these plans pay 67 and 70 percent to nonoffice and clerical employees, respectively, but pay full salary to managers.

Waiting Period

A waiting period before benefit payments can begin applies when an illness does not involve hospitalization, except in accident cases. This practice is typical for all groups, but interesting differences reflect management departures from normal administrative practice. Thus, while a waiting period is typical for all groups, its prevalence is reduced for both clerks (78 percent) and managers (64 percent), as compared with nonoffice employees (87 percent).

On the other hand, among plans that do impose a waiting period, liberal divergence from the normal one-week period apparently is achieved differently for clerks and managers than for the nonoffice groups. Thus, for example, long waiting periods—30 days or more—apply in 16 percent of the managers' plans and in 10 percent of the office-clerical employees' plans, but this practice is limited to 4 percent of the nonoffice plans. The differences presumably reflect the availability of salary continuation, which is common for white-collar groups, but uncommon for nonoffice groups (especially in manufacturing).

Divergence from the norm in plans affecting nonoffice

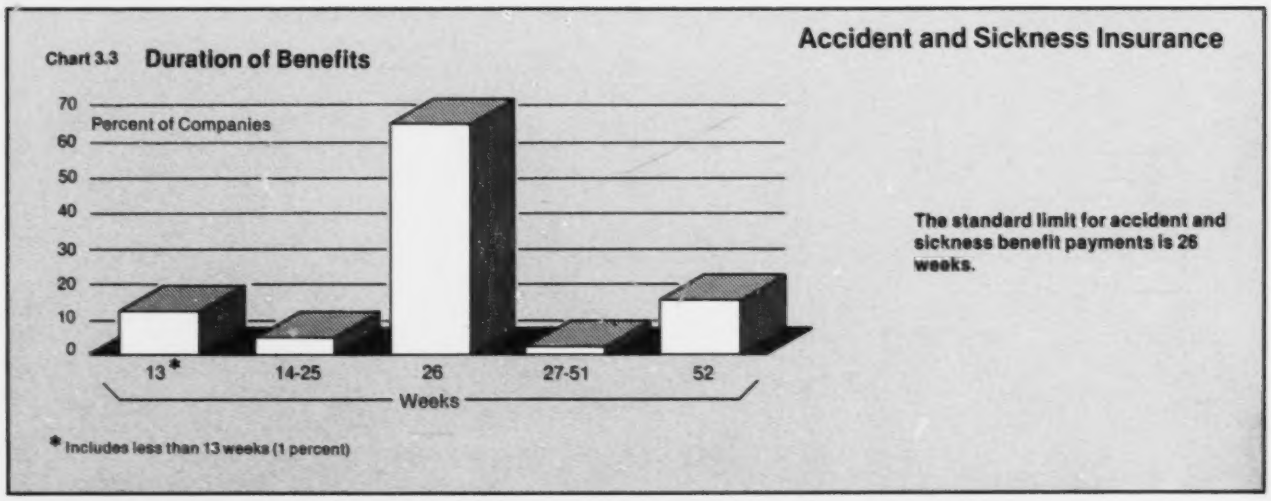


employees tends toward a shorter wait for benefits. Requirements of less than a full week apply in 25 percent of the nonoffice employees' waiting periods as compared with 18 percent for clerical people and 13 percent for managers.

The majority of plans waive the waiting period in hospital (51 percent) and accident (60 percent) cases. These practices are substantially the same for all groups with but one exception: The unions have increased the prevalence of waiver in accident cases to 75 percent.

Noninsured Sick Pay

Paid sick leave is a noninsured salary continuation program under which the company pays an eligible employee during a period of qualifying disability. Designed for essentially short-term illness, these plans encompass a wide variety of benefit levels, ranging from a week or two of disability to over a year. Many now provide less than full salary during part of a long period of disability. Designs include simple plans that make available a flat period of sick pay to all who meet basic eligibility re-



quirements, and others where the duration of benefits or the rate of pay replacement, or both, vary with length of service.

Prevalence and Eligibility

Historically rooted in the informal salary continuation practices initially developed for managerial employees and other valued individuals, paid sick leave is commonly regarded as a white-collar benefit. It certainly is general practice (88 percent of the companies) to provide this type of income protection in the office, and this has long been the case. Furthermore, many companies (49 percent) now extend noninsured sick pay coverage to nonoffice employees as well (Chart 3.1). Not surprisingly, this practice is more likely where the nonoffice group includes white-collar occupations, as in the retail and wholesale trade classification (67 percent cover nonoffice employees), or where blue- and white-collar employees are traditionally treated alike, as in the electric and gas utilities (96 percent apply the plan to all employees). In manufacturing, about 36 percent of the companies provide sick pay for nonoffice employees.

Although coverage is often extended to nonoffice groups, benefits are not as readily available to these employees as to clerks and managers. Eligibility for some sick pay is made available after three months on the payroll by 73 percent of the managers' plans and by 66 percent of the clerical employees' plans, but by only 39 percent of the plans for nonoffice employees.

Pay Replacement Rates

Some 40 percent of the plans in this study provide for less than full salary replacement during some part of the benefit period, often after a period at full pay.

Typically, part-pay for this purpose means half-pay, especially for nonoffice employees (65 percent of whose plans specify half-pay for weeks that are not fully paid). But the practice is typical among both the clerks' plans and the managers' plans, about 50 percent of which specify half-pay for such weeks. Another 10 percent, 22 percent, and 26 percent of the nonoffice employees', clerks' and managers' plans, respectively, pay 60 percent of pay. Few plans (7 percent) specify less than half-pay or as much as 75 percent (6 to 9 percent) during any part of the benefit period.

Duration Varies by Service

For each employee group, a majority of the plans vary benefit duration with the employee's length of service. About 59 percent of the clerks' plans, 56 percent of the managers' plans, and 52 percent of the nonoffice employees' plans determine the potential duration of payments in this way. This practice prevails in all types of

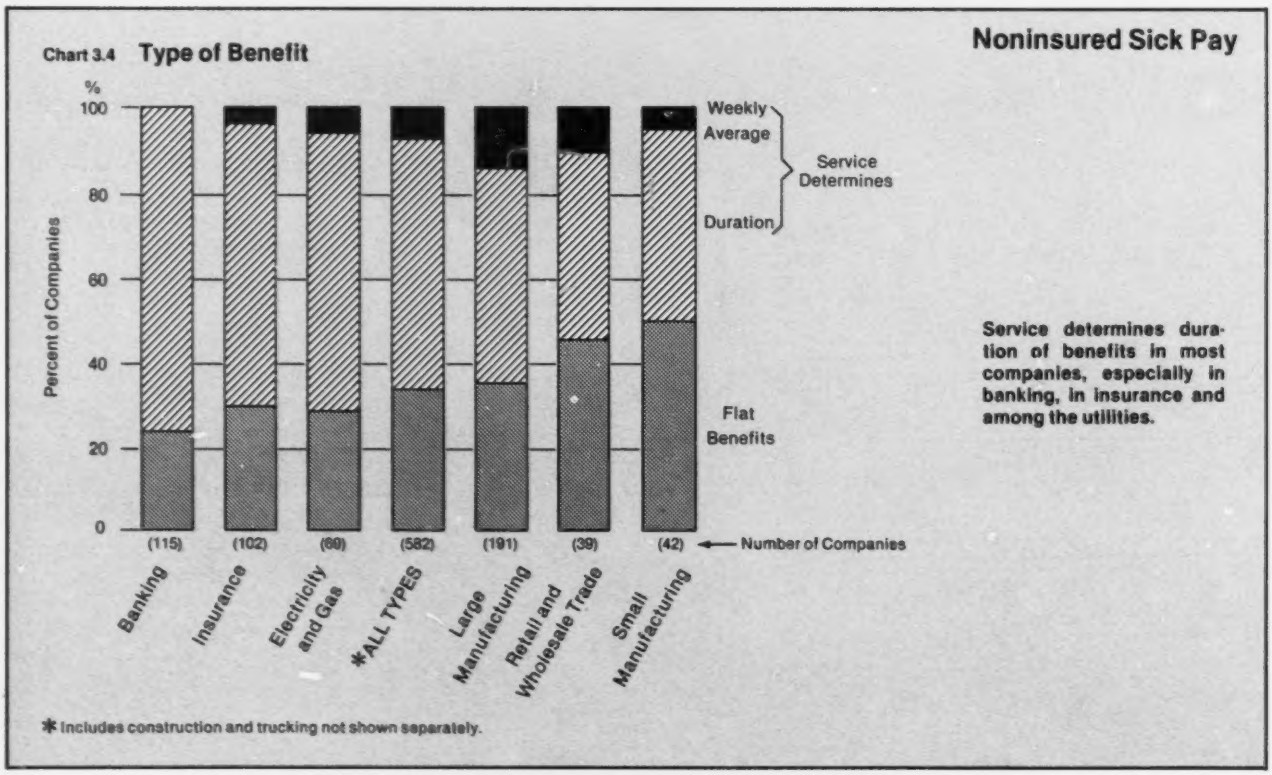
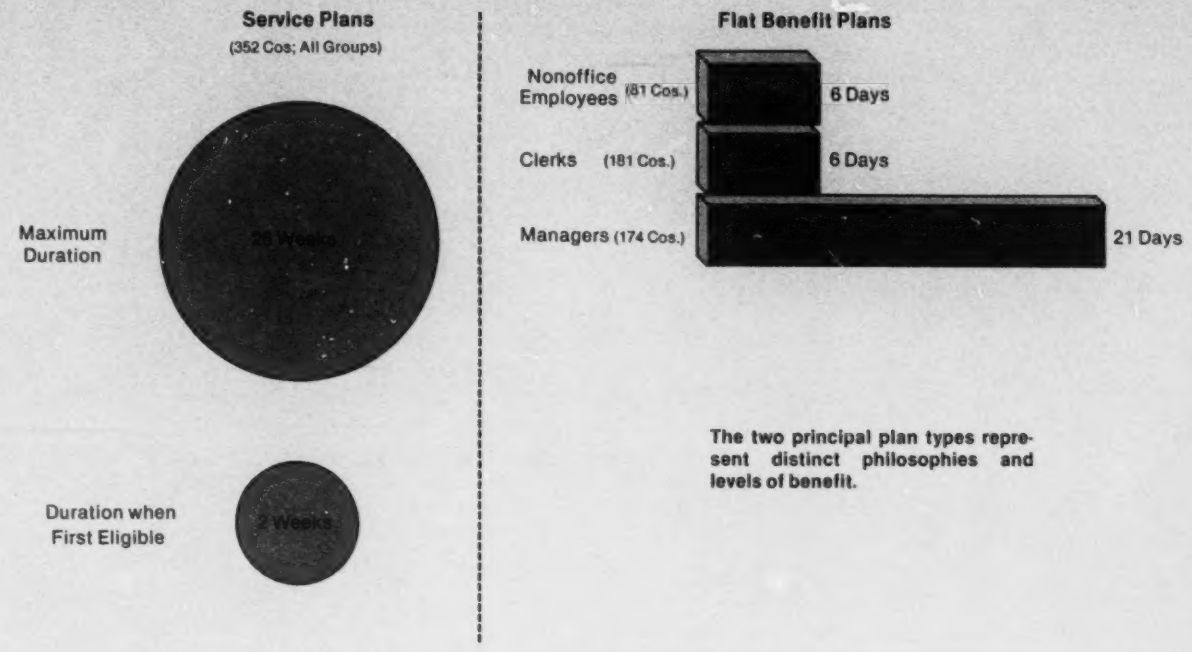


Chart 3.5 **Duration of Benefits in Two Types of Plan (Median Plan)**



The two principal plan types represent distinct philosophies and levels of benefit.

business studied—except small manufacturing and trade—but it is most common among banks (76 percent), insurers (67 percent), and utilities (63 percent). (Chart 3.4.)

The maximum duration of payments under these plans is typically 26 weeks (median) for all groups, with the mid-50 percent ranging from 18 to 52 weeks for nonoffice employees, from 18 to 28 weeks for the clerks, and from 21 to 30 weeks for the managers (Chart 3.5). (Although the upper 25 percent of the nonoffice employees' plans provide more extensive coverage than the other plans, the prime coverage of short-term disability is provided through accident and sickness insurance outside of the office.)

The top benefit under these plans is available after ten years (12.5 years for the nonoffice group) of service under the median plan, with the middle 50 percent requiring 10 to 20 years for nonoffice employees, 6 to 24 years for the clerks, and 5 to 20 years for the managers.

Replacement Rate Varies by Service

A small, but significant, group of plans varies the weekly benefit rather than the duration of payments, by length of service. About 9 and 7 percent, respectively, of the managers' and clerks' plans (50 and 40 plans) increase the salary replacement rate with increasing service. To illustrate, a plan might provide for 26 weeks of benefits to all who are eligible, paying half salary during the entire period if service is less than five years. For those with five years' service, full salary continuation for 8 weeks might be followed by 18 weeks at half-pay, the number of full-pay weeks increasing to 12 after 10 years, and to the entire 26 weeks after 20 years. Application of this plan to nonoffice employees is rare (just seven plans, or 2 percent).

This tactic is most important in manufacturing, where 14 percent of the plans vary the replacement rate rather than the duration of payments. Considering the largest firms separately, the percentage rises to 17 among manufacturers employing at least 5,000 people, whereas only 6 percent of those employing less than 1,000 use this technique.

Flat Benefit Plans

Plans that vary neither the duration nor the replacement rate—referred to here as "flat benefit" plans—comprise a large minority of the sick-pay practices studied. These are most common as vehicles for nonoffice employees—accounting for 45 percent of such plans—but about 35 percent of each of the other two groups' plans also have flat benefits.

These plans are most commonly used in small manufacturing companies (under 1,000 employees) where prevalence reaches 63 percent for the nonoffice group. The principal reason for the overall prevalence being below 50 percent is the low incidence found among

utilities. In that industry, only 27 percent have flat benefit plans—a level similar to that of the white-collar plans found in banking and insurance.

The duration of benefit payments under these flat benefit plans is comparatively low, especially for the nonexempt employees. The median duration among both the nonoffice and the clerical plans is six days, whereas a month is provided for managers. Although a modest amount of sick pay typifies this group of plans, benefits in some plans are sufficient for moderately long periods of illness. The upper 25 percent provide for durations of at least 8 weeks for nonoffice employees, 12 weeks for clerks, and 26 weeks for managers (Chart 3.5).

Accumulation

About one-half of these plans partially offset such comparatively modest levels of benefits by allowing some accumulation of unused benefits. This practice is most common in banking, insurance and utilities—the categories noted as exhibiting a low prevalence of flat benefit plans.

Typical maximum accumulations allowed by the plans for nonoffice, clerical and managerial employees are 8, 12 and 13 weeks, respectively, thus providing substantial protection at least against infrequent disability.

Long-Term Disability Insurance

Unlike short-term disability plans, which assume that the employee's disablement is temporary, long-term disability (LTD) insurance is designed for conditions so severe that the employee is not expected to return to work. Even if recovery should occur, the disability is expected to last long enough to preclude holding the person's job open.

Widely used as a benefit for managerial and clerical employees, long-term disability insurance also covers nonoffice employees in a minority of companies. It was originally offered to the managers first, and that pattern apparently continues, as is evidenced by a 9 percent increase in prevalence among that group since 1973, compared to increases of 4 and 5 percent for clerks and nonoffice employees. The net result: LTD coverage applies to managers in 83 percent of the companies, to clerks in 72 percent, but to nonoffice employees in only 33 percent (Chart 3.6).

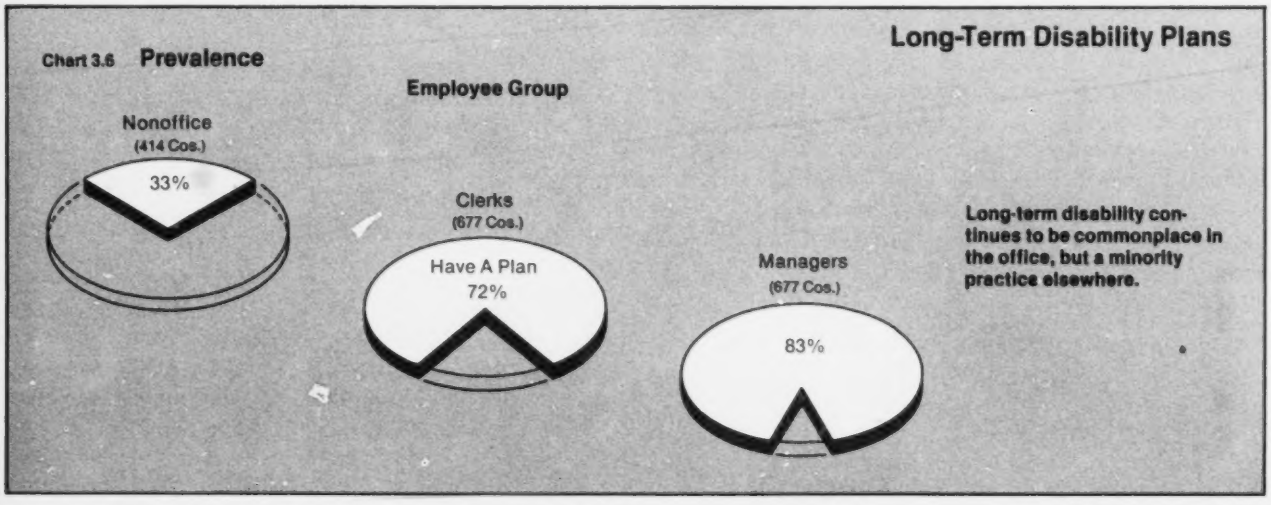
The similarity in prevalence between the clerks and managers declines in manufacturing and in trade. Among the large manufacturers, prevalence of this coverage for clerks is 13 percent lower than that among managers' where it is 87 percent. In small manufacturing, the clerks' LTD prevalence is 18 percent lower than the managers' 76 percent. In the retail and wholesale trade classification, the level of prevalence declines to 34 percent of the clerks' compared with the managers' 74 percent.

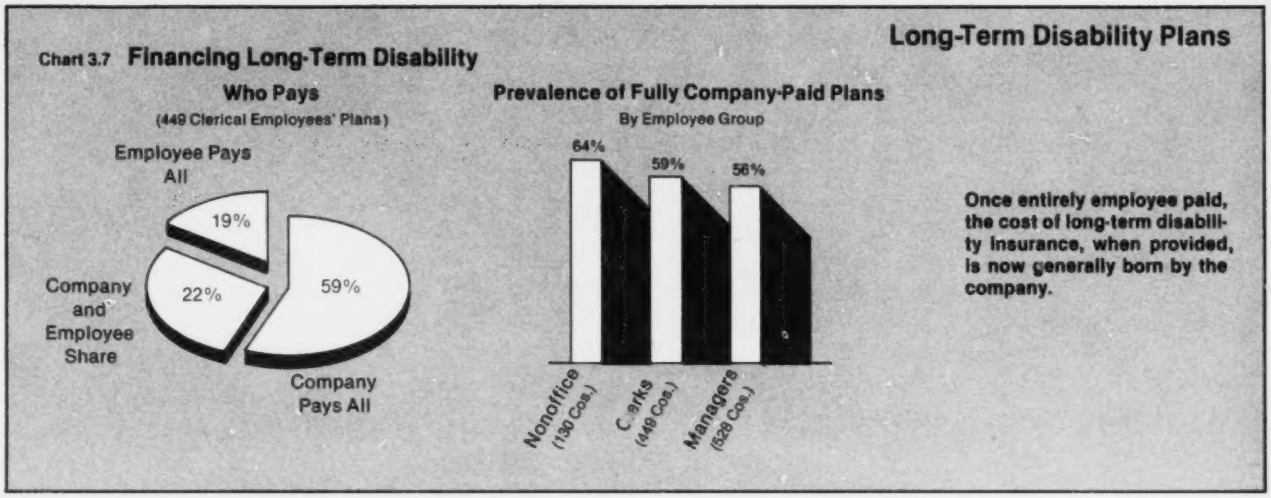
Financing

Vast changes in financing have accompanied the development of LTD coverage. Initially, it was provided entirely at the employee's expense by most companies. The majority practice now has the company assuming all of the cost, as is true of so much of the benefits package. Thus, free coverage is provided by 56 percent of the managers' plans, by 59 percent of the clerks' plans, and by 64 percent of the nonoffice plans (Chart 3.7).

On the other hand, a substantial reflection of an early practice appears in the form of fully employee-paid coverage in 19 percent of the clerks' and managers' plans, and in 15 percent of the nonoffice plans.

The balance of the plans—24 percent of the managers'





plans, 22 percent of the clerks' plans, and 18 percent of the nonoffice plans—provide for the employee and the company to share the LTD premium. They share the premium equally in the median plan, except for the nonoffice employee, who pays one-third of the premium.

The incidence of fully company-paid coverage for managers is above average among the utilities, small manufacturing, insurance and banking, ranging from 64 to 70 percent. But it is considerably less common in large manufacturing (46 percent), and in trade (41 percent), while about one-third of the construction and trucking companies provide free coverage.

Benefits

The usual design objective of LTD insurance is to ensure an income from a specified company-supported source of from 50 to 67 percent of salary for most covered employees. Some 90 percent of the plans set the basic benefit within this range—the 60 percent rate being typical for all groups of employees. This rate is specified by 56 percent of the clerks' and managers' plans, and by 48 percent of the nonoffice plans. The 50 percent rate applies more among the nonoffice employees' plans (29 percent) than among the others (17 percent for each). The managers' and clerks' plans, in turn, are somewhat more likely than the nonoffice plans to specify 67 percent (18 percent compared to 14 percent).

Maximum Benefits

Eighty-seven percent of managers' plans set a dollar limit for monthly benefits, while for the clerks' plans 83 percent specify such a limit. The maximum benefit under the plans of both groups averages (median) $2,500, and the central 50 percent of the maximums ranges from $2,000 to $3,000. Among the nonoffice plans, 80 percent specify maximum amounts, the median being $2,000.

Elimination Period

Benefit payments do not begin until the disability has lasted six months under the terms of 56 percent of the plans. Another 21 percent fix the elimination period at three months, while benefits begin sooner in 6 percent of the plans. A full year of disability must precede payments in 7 percent of the plans.

Duration of Benefits

The interpretive rules guiding the administration of the amended Age Discrimination in Employment Act specify that the employer's *cost* of disability insurance must be no less for an employee disabled at a later age than for one disabled at an earlier age.

This suggests that some alterations are due in the traditional practice of terminating long-term disability payments at age 65, but the form that change will take is not clear. The guidelines suggest that where cost considerations would permit lesser benefits to older disabled employees, one form of the reduction can be to reduce the *duration* of payments while retaining the same *level* of benefits as for younger employees.

Whether, in balance, companies will attempt such an approach, or simply extend payments to age 70—similar to the way the pension vesting question was settled—or take still another approach, remains to be seen.

Disability Income for Part-Time Employees

Disability income protection is extended to part-time employees only as a minority practice, and principally it is short-term disability coverage. Thus, 35 percent of the noninsured sick-pay plans, and 38 percent of the insured accident and sickness plans extend coverage to these people. Just 22 percent of the long-term disability insurance plans, on the other hand, cover part-time employees.

Chapter 4

Retirement Income and Capital Accumulation Plans

Profile

The average survey company provides a fully company-paid pension plan for all employee groups studied. Parity with inflation is maintained before retirement by basing the pension calculation on the employee's earnings during the last years before retirement ("final average compensation") and 50 percent of his or her social security benefit.

Early retirement at age 60 commands a benefit equivalent to 80 percent of the accrued normal pension.

The company reviews pensions from time to time, making occasional modest ad hoc adjustments to compensate, in part, for inflation-induced erosion after retirement.

Earned pension credits vest fully after ten years of credited service.

A capital accumulation plan is in place, and the company contributes to it. The plan is either a savings plan, a profit-sharing plan, or a stock purchase plan.

The leading-edge company adds these refinements to the average package:

- **An early retirement benefit equal to the full accrued pension when an employee retires at or after age 62 (age 60 in some plans, but a trend has not been established).**
- **Ad hoc adjustments are made, more or less regularly, at two- or three-year intervals while double-digit inflation persists.**
- **The company contributes to a savings plan, the typical rate being 50 percent of recognized employee savings, with company support now often exceeding this level, perhaps in response to profit achievements.**
- **A company of modest size, especially in the retail and wholesale trade group, and among smaller manufacturers studied, may well prefer the somewhat more flexible deferred profit-sharing approach to the savings plan.**
- **A stock plan is available for those employees who want a convenient way to invest in the company; it is likely to be a simple payroll purchase facility administered either by a stockbroker or by the company itself with assistance from its banker.**

THE 1970's INFLATION, which demanded so much of management's attention in health insurance, was also accompanied by rapidly increasing social security taxes and, early on, by deteriorating investment experience. At the same time, unions, employees and retirees pressed for company actions to counter inflation's effects on retirement income.

Response to the pressures on this part of the benefits package took a variety of forms, inducing some changes and hastening others. Thus, the shift to a final average pay base for pensions, begun before the 1973 survey, is almost complete now. This shift, more and more, has come to mean a changeover to a direct offset of social security benefits. Management continues to eschew the indexation of benefits after retirement, preferring, instead, to grant any increases on an ad hoc basis.

From a longer range perspective, many managements prefer to encourage thrift by adopting employee savings plans. Others added payroll deduction stock purchase facilities.

Capital intensive companies with substantial continuing investment needs took advantage of extra investment tax credits by establishing Tax Reduction Act Employee Stock Ownership Plans (TRASOPS), and with the same move added yet another opportunity for employees to become shareowners.

Liberalized pension financing trends continued during the period, too, even as many companies stepped up the liberalization of vesting provisions in response to demands of the Employee Retirement Income Security Act of 1974 (ERISA).

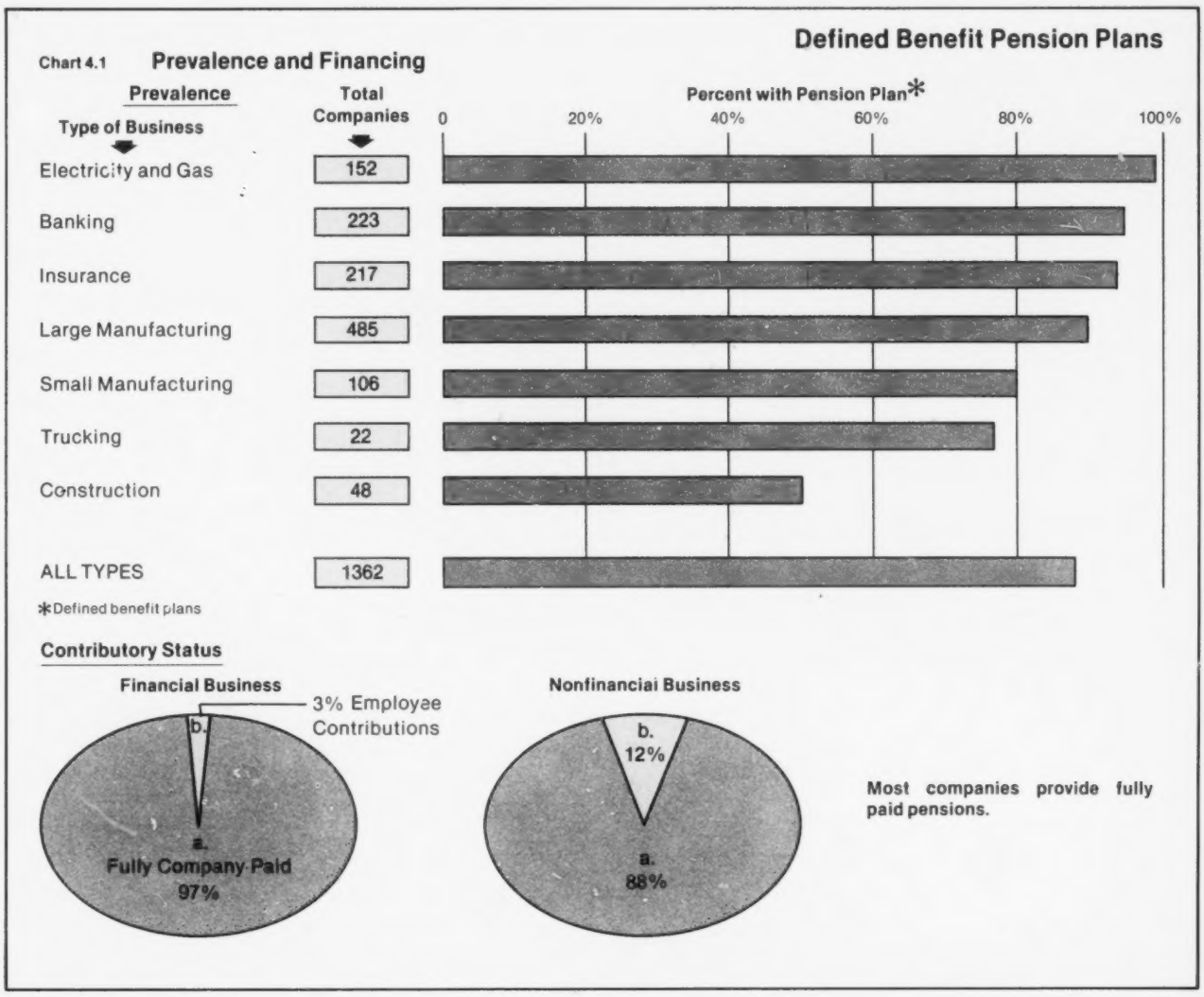
Defined Benefit Pension Plans

A typical company provides fully company-paid pensions for its employees. This was so when the 1973 Profile survey was conducted; the only change since then has been the deepened dominance of full company payment. Among the current survey participants, 88 percent have defined benefit pension plans—substantially the same as in the earlier study—while the proportion that are provided entirely at company expense has increased to 91 percent from 80 percent.

Prevalence is substantially below average in some types of business, although this is probably offset to some degree by deferred profit sharing. In the retail and wholesale trade group, for example, only 67 percent of the companies report defined benefit plans. Similarly, prevalence is below average among small manufacturers, trucking firms, and in the construction business (Chart 4.1).

The dominance of company-paid pensions appears in all types of business analyzed and in all employee groups. Employee contributions are required by 9 percent of the plans, both those affecting office employees and those that apply to nonoffice people, although the matter is not quite that simple. To a degree manufacturers actually treat the two groups differently. Thus, 12 percent of the office plans, but only 8 percent of the nonoffice plans in manufacturing require contributions. Other nonfinancial businesses apply substantially the same financing policy to both groups. The impact of the manufacturers' differentiation on average practice in the office is blunted by a rarity of contribution requirements among the financial companies' (office) plans, only 3 percent of which are contributory.

Even among those few plans requiring employee contributions, the employee's participation is usually



modest; the median rate is 10 percent of cost for office employees, and 17 percent among nonoffice employees' plans.

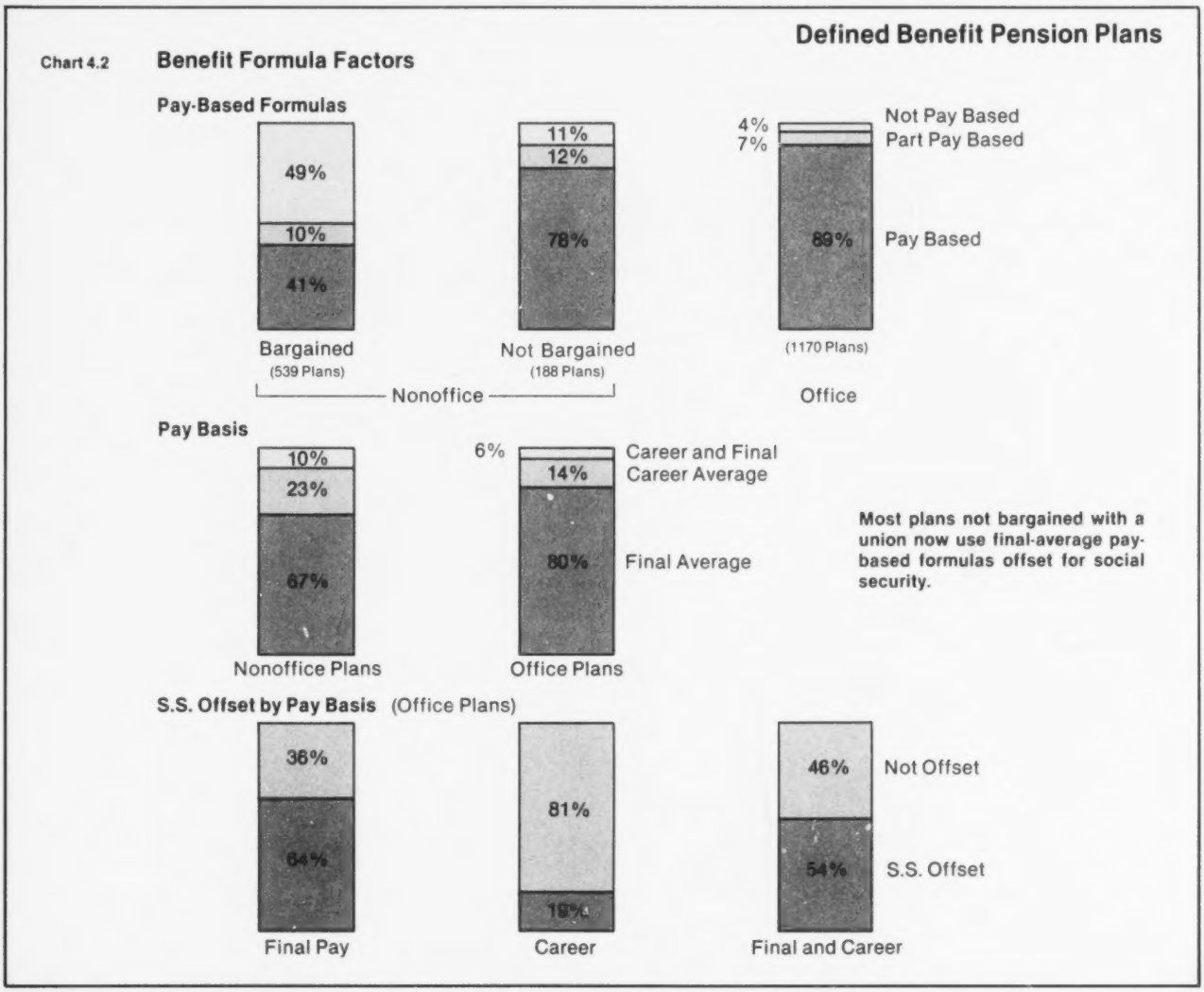
The Benefit Formula

The benefit calculation usually takes into account the employee's service with the company; but, in addition, the amount of the pension may or may not take earnings into account. Whether it does depends, in part, on the range of earnings included in the particular plan. For this reason, plans affecting salaried employees usually include salary in the calculation. Plans limited to hourly paid classifications traditionally have applied formulas that do not vary the benefit with earnings. Where hourly and salaried employees are both affected, a salary-based formula may be modified to provide a minimum dollar credit for participants in the lower pay classifications.

Plans in this survey that provide pensions for office employees generally (96 percent) base the pension calculation on earnings, although 7 percent also apply a straight dollar calculation. Among plans for nonoffice employees, earnings-based formulas are less common, especially where collective bargaining affects the plan; 51 percent of the bargained plans are related to pay, but 10 percent also include a dollar calculation. Nonbargained plans are closer to the office plans in this respect; 90 percent are pay based, although 12 percent also use a dollar calculation. To put the matter the other way, earnings are entirely disregarded in the pension calculation by 49 percent of the bargained plans, by 11 percent of the nonbargained plans for nonoffice employees, and by just 4 percent of the office plans (Chart 4.2).

Executive Bonus

With the widespread application of incentive techniques to executive pay, the question of including the bonus



Lump-Sum Settlement

The availability to individuals of high-yielding investments together with special tax treatment creates demand from employees for lump-sum settlements. Asked to report whether this is permitted by their plans at the employee's option, 15 percent of the companies indicated that the option is available to salaried employees, 10 percent to nonoffice employees.

The board of directors or a benefits committee has the discretion to award lump-sum settlements in 38 percent of the plans for both office and nonoffice employees (Chart 4.3).

in the pension base is pertinent. Executive bonuses are used by 74 percent of the sample. Among these, 39 percent report the inclusion of the bonus as part of compensation in the pension calculation.

Inflation and Taxes Transform Benefits

Plans that calculate the pension as a percent of pay typically base the calculation on average pay over a period of years just before retirement—that is, on a measure of the plan participant's final pay. Among the office plans, 80 percent use a final pay basis; another 6 percent specify a final pay basis either for part of the calculation, or as an alternative to one that bases the calculation on the participant's entire earnings history under the plan (career-average earnings). Only 14 percent of the office plans use a career-average earnings base exclusively, representing a decrease from 20 percent in 1973.

The shift to final pay calculations is accompanied by the introduction of a deduction, or offset, for the employee's social security benefit; 64 percent of the final-pay formulas specify an offset for social security, a substantial increase from the 40 percent reported in 1973. The offset is most widespread among final-pay plans, but its use increased among career-average plans, too, from 8 percent to 19 percent. (It might be noted that career-average formulas are frequently updated in some companies, thus somewhat blunting the distinction between final and career-average calculations.)

Typically (80 percent of the offsets) the amount of the offset is specified as one-half of the employee's primary social security benefit. The majority (58 percent) of the offset provisions prorate the amount, so that the offset keeps pace with the pension accrual until a specified level of service is attained; a 20-year retiree in a plan that offsets 50 percent after 30 years would have 33⅓ percent subtracted from the accrued pension, for example.

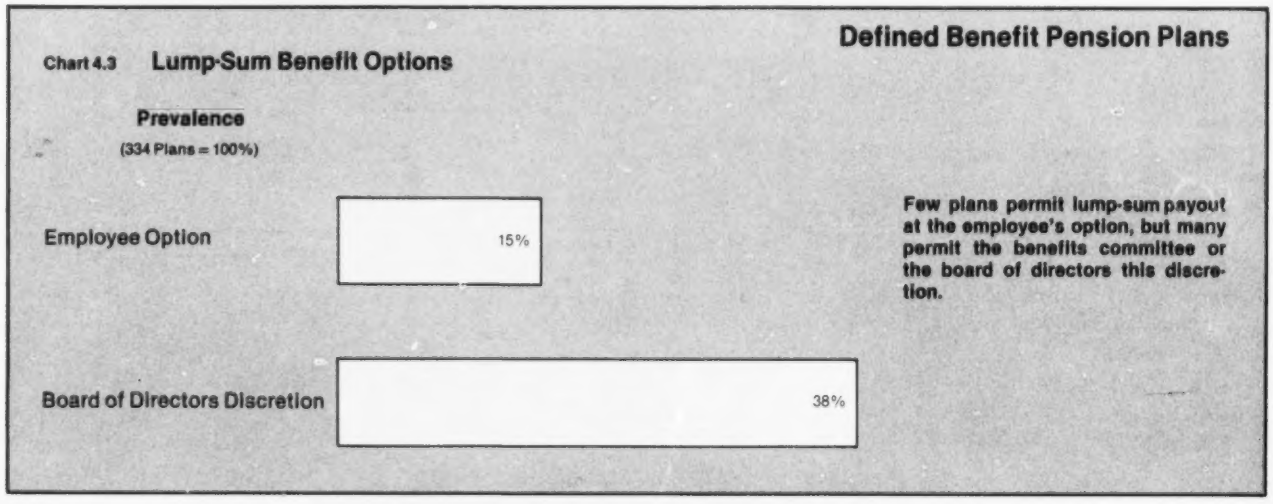
Early Retirement Benefits

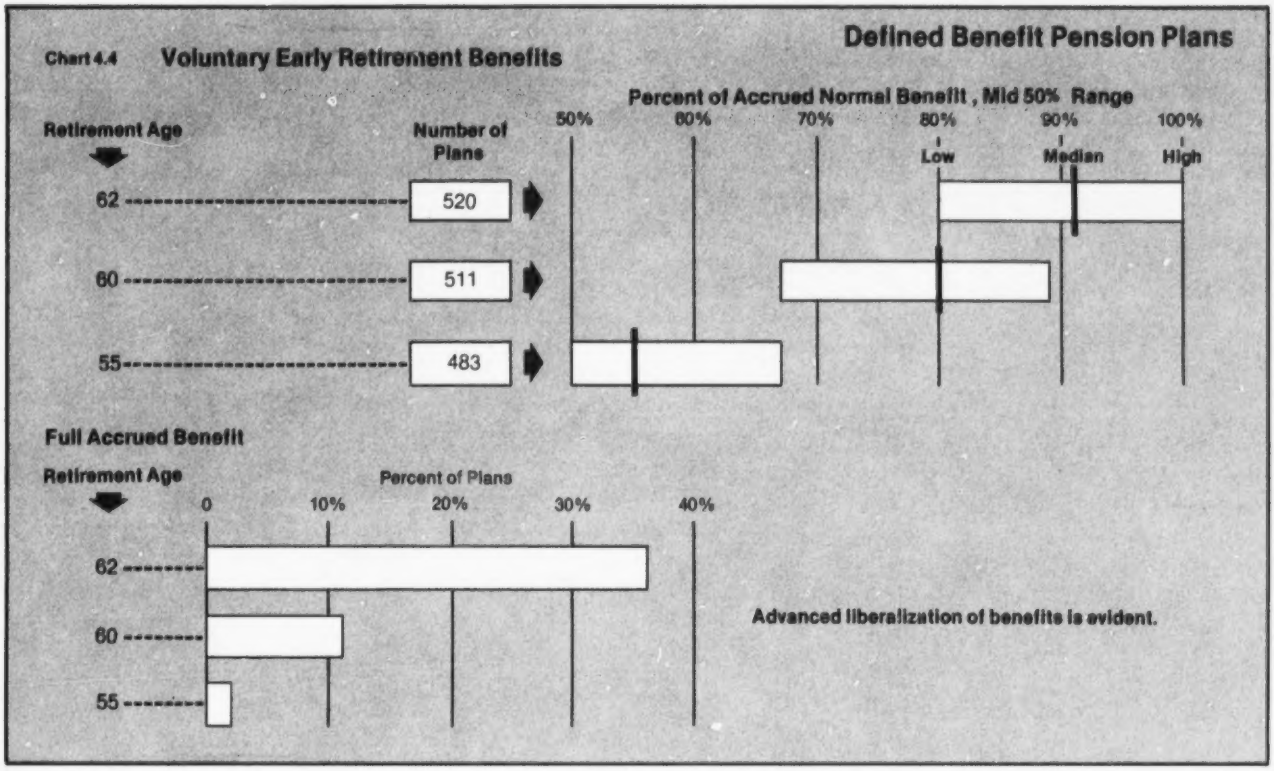
Retirement, today, usually occurs before age 65, the formal age for normal retirement in most plans. Therefore, it is useful to measure early retirement benefits at three milestone ages: 62, 60 and 55.

The earliest age at which reduced social security benefits are available (other than for disability retirement) is 62. The median benefit for voluntary early retirement, as reported by respondents, is 91 percent of the employee's accrued normal benefit, reflecting in part the high proportion of plans (36 percent) that pay the full accrued benefit at this age. Among plans that pay less than the full benefit, the median reduced benefit is 80 percent (Chart 4.4).

Age 60 is a useful point in the range both for its popularity and because the available benefit is a large proportion of the accrued normal benefit in many plans. The median benefit reported for this age is 80 percent; 11 percent of the plans pay the full accrued benefit at 60.

Age 55 is the traditional minimum age for early retirement, and it remains so in spite of the fact that even


Defined Benefit Pension Plans
Chart 4.3 Lump-Sum Benefit Options
Prevalence
(334 Plans = 100%)
Employee Option
15%
Board of Directors Discretion
38%
Few plans permit lump-sum payout at the employee's option, but many permit the benefits committee or the board of directors this discretion.



earlier retirement is possible under some plans. The median reported benefit is 55 percent of the accrued amount, and few (2 percent) of these plans pay the full benefit.

Counteracting Erosion after Retirement

A majority of the respondents have attempted to offset at least some of the pension erosion induced by inflation. Far and away the most popular method among these survey companies is the "ad hoc" increase, but the variable annuity has its adherents, and a few plans are formally indexed (Chart 4.5).

Pensioners' benefits were increased at least once after 1973 in 50 percent of the companies with pension plans. Most of these increases were granted in four of the types of business analyzed. Most active in this regard is the electricity and gas business, where 66 percent raised pensions in this way during the period. The insurance business, too, was active: 56 percent granted increases. Among both the large manufacturers and the banks, 56 percent provided increases. In other industries, 30 percent or less increased benefits to retirees.

The variable annuity, which ties the benefits to an investment portfolio, is available, at least in part, under the terms of 15 percent of the plans. This option is most common in banking and in the retail and wholesale trade group, where about 22 percent of each group provides for it.

The pension plan that is formally tied to a price index is still very rare. Just 4 percent of the companies report this device, although the incidence rises to 11 percent among the insurance carriers surveyed.

Vesting

Under ERISA, the Employee Retirement Income Security Act of 1974, three alternative standards are established for vesting of the accrued benefit that derives from company contributions. A plan satisfies this provision of the law if the benefit becomes nonforfeitable under one of these sets of rules:

(1) 100 percent vested after 10 years of service. Most plans (82 percent) surveyed have chosen to meet this standard.

(2) Graduated service vesting as follows:

Years of Service	*Vested Percentage*
5	25%
6	30
7	35
8	40
9	45
10	50
11	60
12	70
13	80
14	90
15 or more	100

This second standard is the choice of 12 percent of the plans.

(3) Graduated vesting according to the tabulation of age-service sums shown below, but subject to the qualification following the tabulation:

If Years of Service Equal or Exceed—	*And Sum of Age and Service Equals or Exceeds—*	*Then the Nonforfeitable Percentage is—*
5	45	50%
6	47	60
7	49	70
8	51	80
9	53	90
10	55	100

But under this alternative, at least 50 percent must vest after ten years of service, regardless of the age-service sum, and an additional 10 percent (at least) must vest each year, so that 100 percent vesting must be achieved by the time 15 years of service is reached. Only 6 percent of the plans chose to qualify under this standard (Chart 4.6).

Alternatives (2) and (3), taken together, are used by just 18 percent of the plans, but these graduated vesting standards are more widely used in some businesses. Thus, among insurers and in small manufacturing, about 34 percent of the plans opted for graduated vesting; in the retail and wholesale trade group, 22 percent have done so. In other types of business, the graduated alternatives are less common, averaging 12 percent all together.

Capital Accumulation Plans

Most sample companies' employee-benefits packages include one or more of a variety of plans which provide mechanisms for employees to accumulate capital, and about half of these companies make direct contributions. Each of these plans uses one or more of a diverse set of methods including: payroll savings, company contributions, investments, tax deferral, and—in the case of TRASOPS—government contributions with the corporation serving as conduit.

Employee Savings Plans

One plan very popular with employees combines several of these tactics. The key plan elements are payroll savings, company contributions directly related to the amount saved, and a qualified trust fund to hold the savings and contributions for deferred distribution and deferred taxation. Commonly, the plans allow for investment of the fund in a set of alternatives that the employee may choose from.

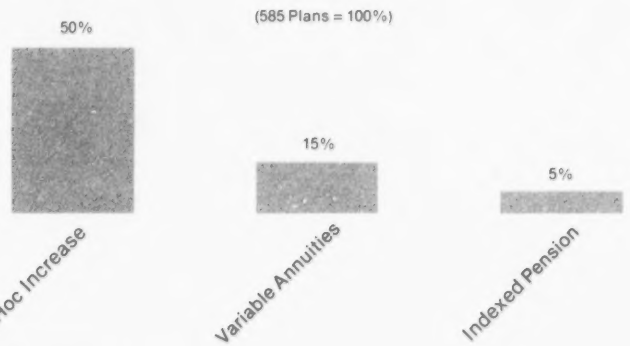
Following two decades of moderate growth before 1973, this benefit's prevalence increased sharply thereafter: 35 percent of the companies now have savings plans for their office employees—double the 18 percent reported then. Although prevalence is lower for non-office employees—22 percent of the companies include them—nevertheless, it reflects similar growth over the 12 percent prevalence of the earlier study.

Reflecting, in part, the plans' origins in petroleum refining and natural gas, prevalence is high in large manufacturing and in the electricity and gas business, where over 40 percent of the companies report such plans. The small group of construction companies surveyed also report at this level of prevalence.

Reporting on the 1973 survey, the earlier Profile noted that savings plans had "begun to take hold in the insurance business," where 17 percent of the companies had adopted them. Now 33 percent of the insurance companies report plans. The only other businesses reporting this number of plans were large manufacturing and the electric and gas utilities—with 28 percent and 24 percent, respectively. These plans are now in force in significant

Chart 4.5 **Dealing with Post-Retirement Inflation**

Defined Benefit Pension Plans

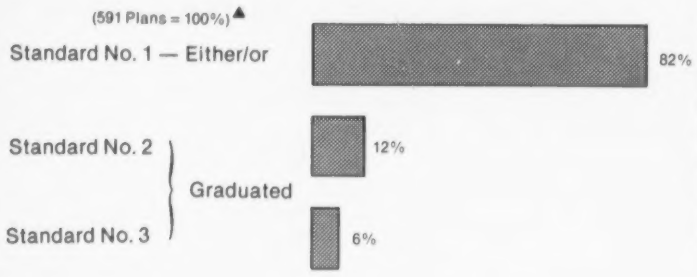


The ad hoc increase is the preferred method for raising retirees' benefits.

* One or more increases granted in 5.5 year period

Chart 4.6 ERISA* Vesting Choices

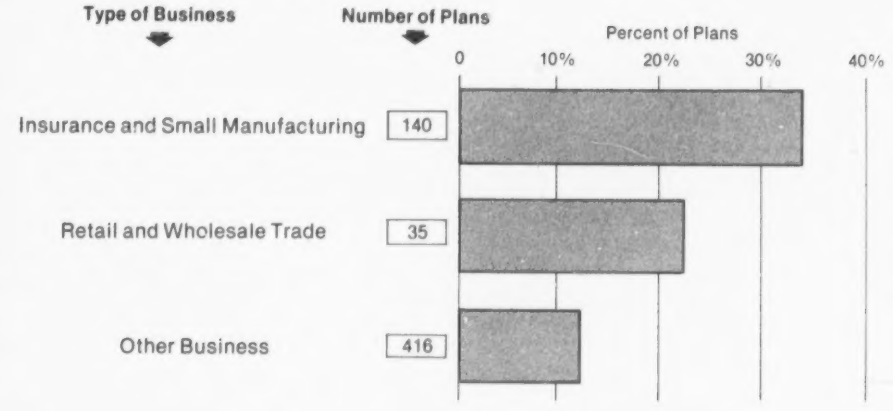
Defined Benefit Pension Plans



Key to Standard:

1. Full vesting after 10 years service.
2. Graduated service vesting starting after 5 years of service, with full vesting after 15 years.
3. Graduated vesting, starting when service equals or exceeds 5 years and the age-service sum equals or exceeds 45 (or after 10 years' service regardless of age), and achieving full vesting when service equals or exceeds 10 years, and the age-service sum equals or exceeds 55 (or after 15 years' service regardless of age).

Graduated Vesting: Three Levels of Incidence:



Cliff vesting after 10 years is the preferred standard, but the graduated vesting standards are widely used in some groups.

* Employee Retirement Income Security Act of 1974

▲ 16 Plans Omitted that did not report one of these standards

proportions of the banking business and in the retail and wholesale trade group (Chart 4.7).

Office and Nonoffice Employees

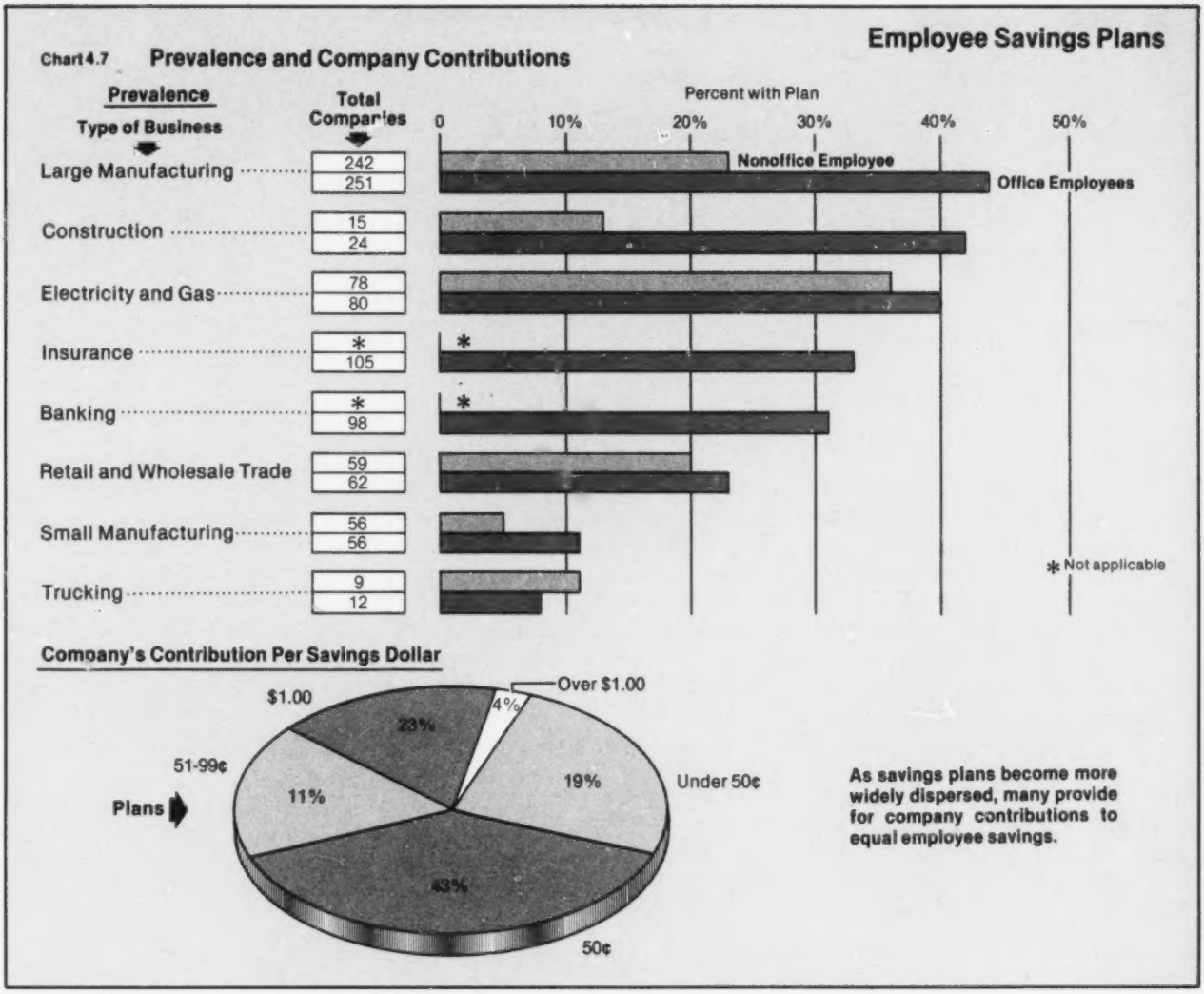
The disparate coverage of office and nonoffice employees is due mainly to practices among large manufacturers, another phenomenon traceable, in part, to the benefit's early history. When the major auto companies negotiated supplemental unemployment benefits plans with the United Automobile Workers, the companies offered savings plans to office employees. To many executives, the savings plan continues to be regarded as a white-collar benefit, particularly in manufacturing. The construction business, too, tends to restrict participation to the office force, largely reflecting the widespread use of day labor in that industry.

Company Contributions

Traditionally, the typical company contribution is 50 cents for each dollar the employee saves up to the maximum. This rate accounts for 43 percent of the plans in the current survey, but the evidence suggests an important change. The proportion of plans that provide for larger contributions than this has grown to 38 percent from just 28 percent in 1973. Moreover, 27 percent provide for contribution rates of $1.00 or more. (The company's contribution rate varies in some plans with profits or, occasionally, with length of service, and the maximum rates payable are reported in such plans. So, in some plans, the matching rate can be less in a particular year or for a particular employee.)

Investment Media

The opportunity for employee choice in selecting investment media for savings and, perhaps, company contributions as well, is characteristic of employee savings plans. Most early plans provided for just two alter-



natives: company stock and U.S. Government obliga- (MIP), an adaptation of the stockbroker's normal functions, frequently represented solely by Series E savings bonds. Substantial changes have been made since then and collectively, at least, there is now a great variety of media available for investment.

Some plans, though, limit investment choice to the employee's own savings. Thus, 41 percent of the plans require that the company's contributions be invested in the company's stock, effectively equating those contributions to a stock bonus.

While many investment media are used by today's savings plans, in general, the choices in a single plan are apparently less numerous. Among nine alternatives, three are available for employee savings in as many as 50 percent of the plans surveyed. Just about equally prevalent (53 percent to 55 percent) are shares of the company's stock, diversified stock and bond funds, and guaranteed income funds. (See table on page 34.)

Stock Purchase Plans

Designed to facilitate rank and file employees' purchases of company stock, these plans are increased in prevalence as compared to 1973; the three plans discussed here account for 42 percent of this sample, but represented only 32 percent of the older one. The key element is the voluntary purchase of the company's stock with the employee's own money, and the plans facilitate this by providing the payroll deduction mechanism and reduced brokerage costs. Shares are distributed while the employee is still working; this is unlike the typical savings plan, which is usually designed to distribute the proceeds at retirement. (Some savings plans with short-term distribution as an option could be considered stock purchase plans in this sense, but they are not included here.)

Broker-Managed Purchase Facilities

The corporate-employee Monthly Investment Plan

Savings Plan Investment Media for Employee Savings

Investment Medium	All Plans	Plans by Type of Business			
		Banking	Insurance	Large Manufacturing	Electricity and Gas
	(N = 227)	(N = 28)	(N = 33)	(N = 107)	(N = 30)
Company stock shares	54%	57%	27%	57%	90%
Diversified fund of stocks and bonds	53	64	45	51	47
Guaranteed income fund	55	18	52	65	57
Corporate fixed income securities fund	30	61	33	20	27
U.S. government obligations (Not E bonds)	22	39	15	18	17
Corporate stocks fund	15	18	24	13	7
Mutual fund shares	11	0	18	9	3
Cash or savings account	13	25	9	10	17
U.S. series E bonds	9	0	3	11	13

tions to the management of company stock-purchase plans for employees, is now provided by 20 percent of the companies, a substantial increase over the 15 percent reported in the 1973 survey (Chart 4.8). In this arrangement, the company makes payroll deductions as authorized by each employee, and forwards to the broker the total amount deducted along with a list of the individual amounts collected. From that point on the broker administers the plan, purchasing as many shares as the proceeds will buy at prevailing market prices, and allocating the shares to individual accounts at the average price paid per share. At the employee's discretion, the shares may be held by the broker "in street name," or certificates issued, as in the case of any ordinary broker-client relationship. In short, the shares belong to the employee.

Company-Managed Purchase Facilities

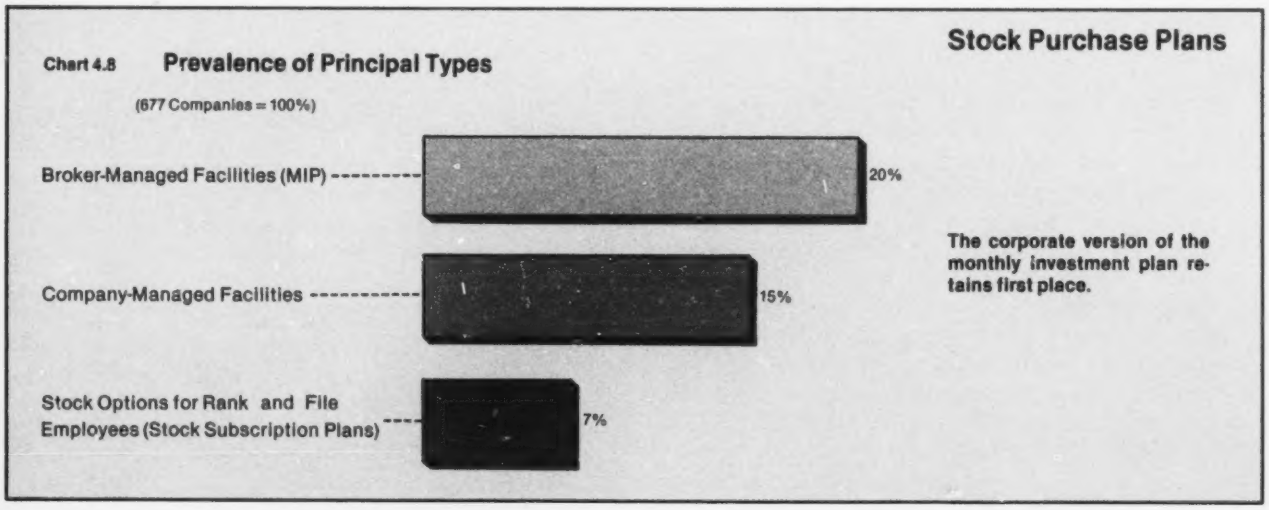
Stock purchase plans that function in substantially the same way as the Monthly Investment Plans are provided by 15 percent of the companies. The principal difference is in the management of the plans. In the company-managed plans, all the management functions are performed by the company. It collects payroll deductions, and purchases shares through a stock-purchase committee or a bank. Full shares are distributed to individuals, either periodically or whenever a specified number of shares accumulate in an individual account.

Company Contributions

For the most part, companies do not contribute to these plans other than by bearing the administrative costs or paying brokers' commissions. However, about 22 percent of the plans provide for company contributions, mainly among the company-managed plans.

Stock-Purchase Options

These plans, offered by 7 percent of the survey companies, are analagous to executive stock options, but they



apply to rank-and-file employees. Typically, an employee is offered the opportunity to subscribe for a specific number of shares of company stock at a stated price, and pay them off through payroll deductions over a period of a year or two. Upon full payment, all shares are turned over to the employee. Until that time he or she can, if desired, cancel the subscription. The Internal Revenue Act of 1964 granted these plans the special tax treatment formerly afforded the "restricted stock options" for executives.

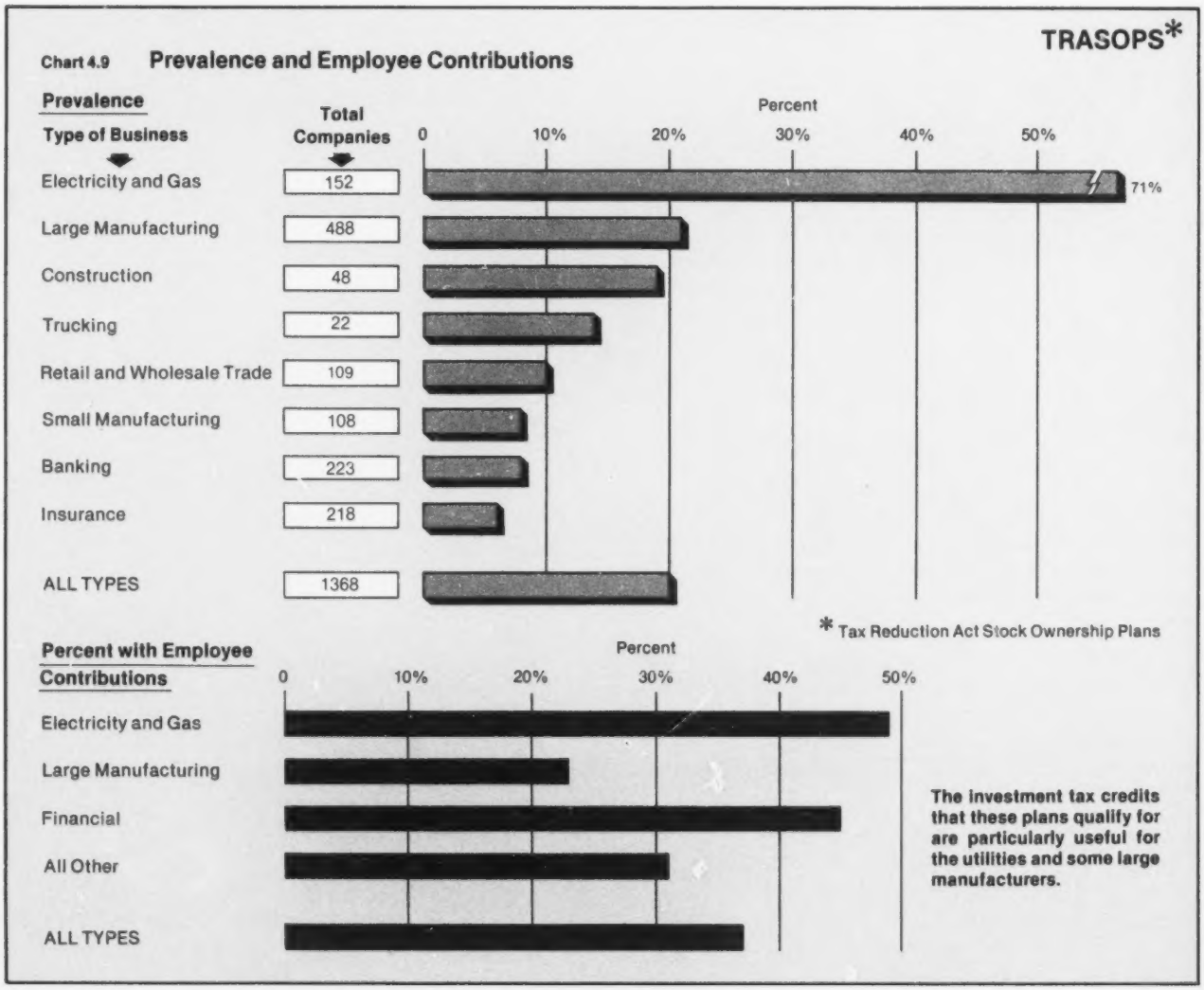
TRASOPS

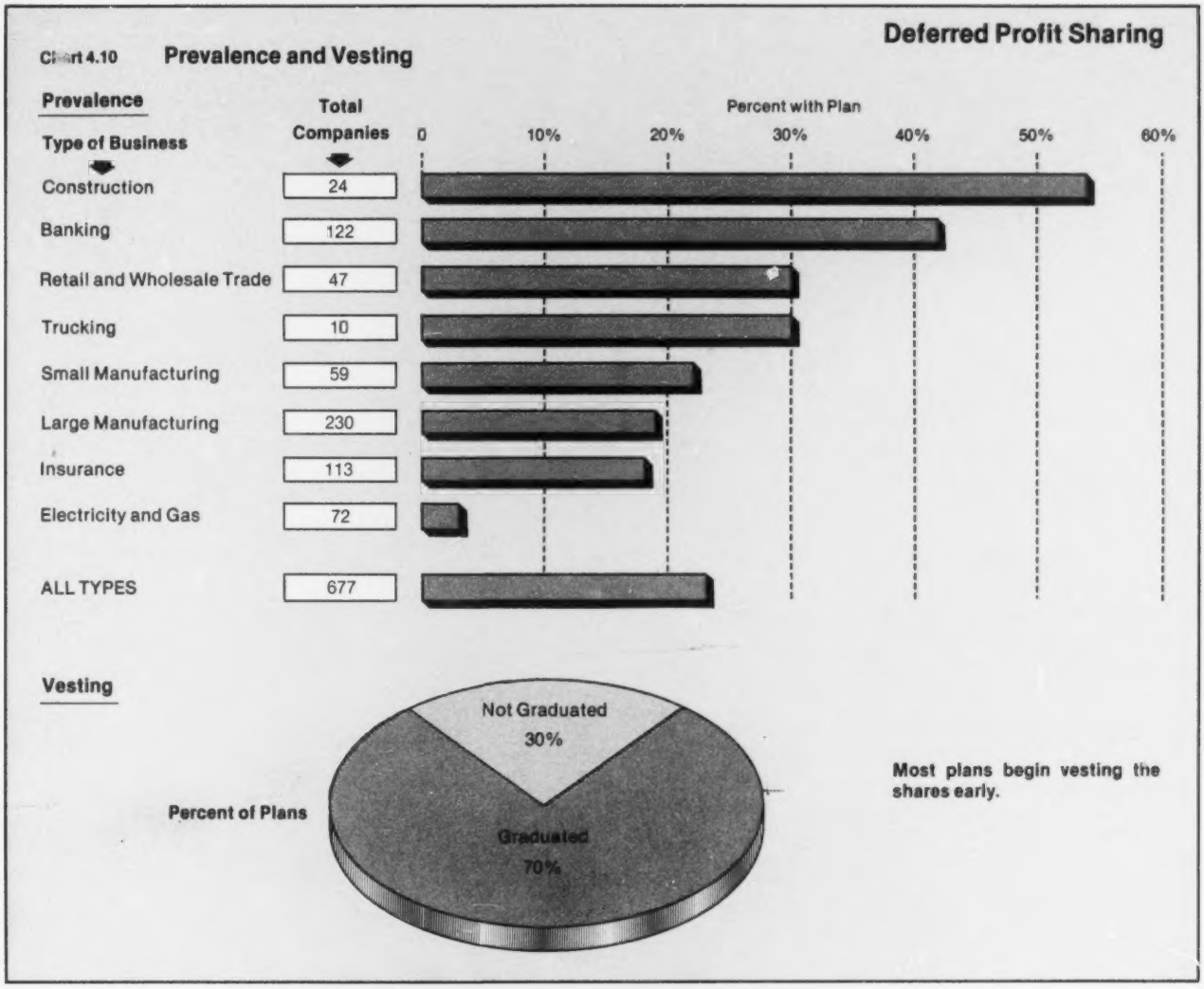
The Tax Reduction Act of 1975 introduced new incentives to establish employee stock ownership plans by adding to the investment tax credit for a company that establishes such a plan. Among the surveyed companies, 20 percent have adopted them. Of those 272 plans, 212 are in electric and gas utilities and large manufacturing companies, representing 71 percent of the utilities and 21 percent of the manufacturers. In addition, 19 percent of the construction firms have such plans. In every other business studied, fewer than 15 percent of the companies have accepted the idea.

A plan can qualify the company for additional tax credit if employees contribute; 37 percent of the plans reported in this survey provided for employee contributions (Chart 4.9).

Deferred Profit-Sharing Plans

Only formal profit-sharing plans are considered in this review, that is, plans with definite formulas specified for determining both how much will be distributed and each participant's share of the distribution. Twenty-three percent of the companies in this survey have formal, de-





ferred profit-sharing plans (Chart 4.10). Some of these are likely to be the sole source of retirement income other than social security, although only about half can be of that type, since 88 percent of the companies surveyed have defined benefit pension plans.

Designed for deferred distribution, the plans considered here are of two types. One type provides for current distribution of some profits, while deferring some. Under the other type, all profit shares for the year are put into a "qualified" trust for distribution at retirement or other termination of employment. The latter is the typical approach found in 74 percent of the plans.

Vesting

In general, the deferred profit shares vest gradually; 70 percent of the plans provide for partial vesting beginning after modest service requirement. The initial amount to vest is 20 percent in the median plan, and the middle 50 percent range from 10 percent to 25 percent.

Vesting begins early in these plans; the median requirement for vesting the initial portion is two years, and the middle 50 percent start the process after from one to four years. Full vesting is achieved after ten years under the median requirement, ranging from five to eleven years in the middle 50 percent of the plans.

Chapter 5

Death Benefit Plans

Profile

The average survey company provides for lump-sum death benefits through group life insurance and group accidental death and dismemberment insurance. Having a pension plan with provision for early retirement, the average company's employees are eligible to provide income benefits for their spouses by electing the spouse's pension, which pays off in the event of death before retirement.

- **For active employees, the typical group life insurance is twice the annual salary; it is provided through a single base plan for which the company pays the entire premium.**
- **For retirees, one-third of the preretirement life insurance is continued at company expense.**
- **Accidental death and dismemberment insurance equal to the life insurance coverage is provided for employees, also fully paid by the company. The company also assumes part of the cost of the spouse's pension.**

The leading-edge company adds group life insurance for the employee's dependents to the average company's benefits, and a survivor income plan to protect survivors of an employee who dies during active employment.

- **For active employees, supplemental life insurance coverage is available—for additional employee contributions—which raises total coverage to two-and-a-half to three times annual salary.**
- **Accidental death and dismemberment insurance can be increased, too, if the employee pays the added cost.**
- **Dependents' insurance: the employee can insure his or her spouse for $2,000, and each child for $1,000, at the employee's own expense.**

THIS OLDEST PART of the employee benefits package is rooted in the occasional act of an early employer to "tide over" the family of a highly regarded employee who died in service, and in the disbursements of welfare associations to families of deceased members. From such occasional philanthropic acts, the tide-over payment has developed into a broadly applicable program with a variety of benefits, normally supported jointly by employer and employee, and frequently encompassing options to increase benefits partly or entirely at the employee's own expense. The modern death benefits program applies, in varying degrees, to regular full-time active employees, to retirees, and to part-time personnel.

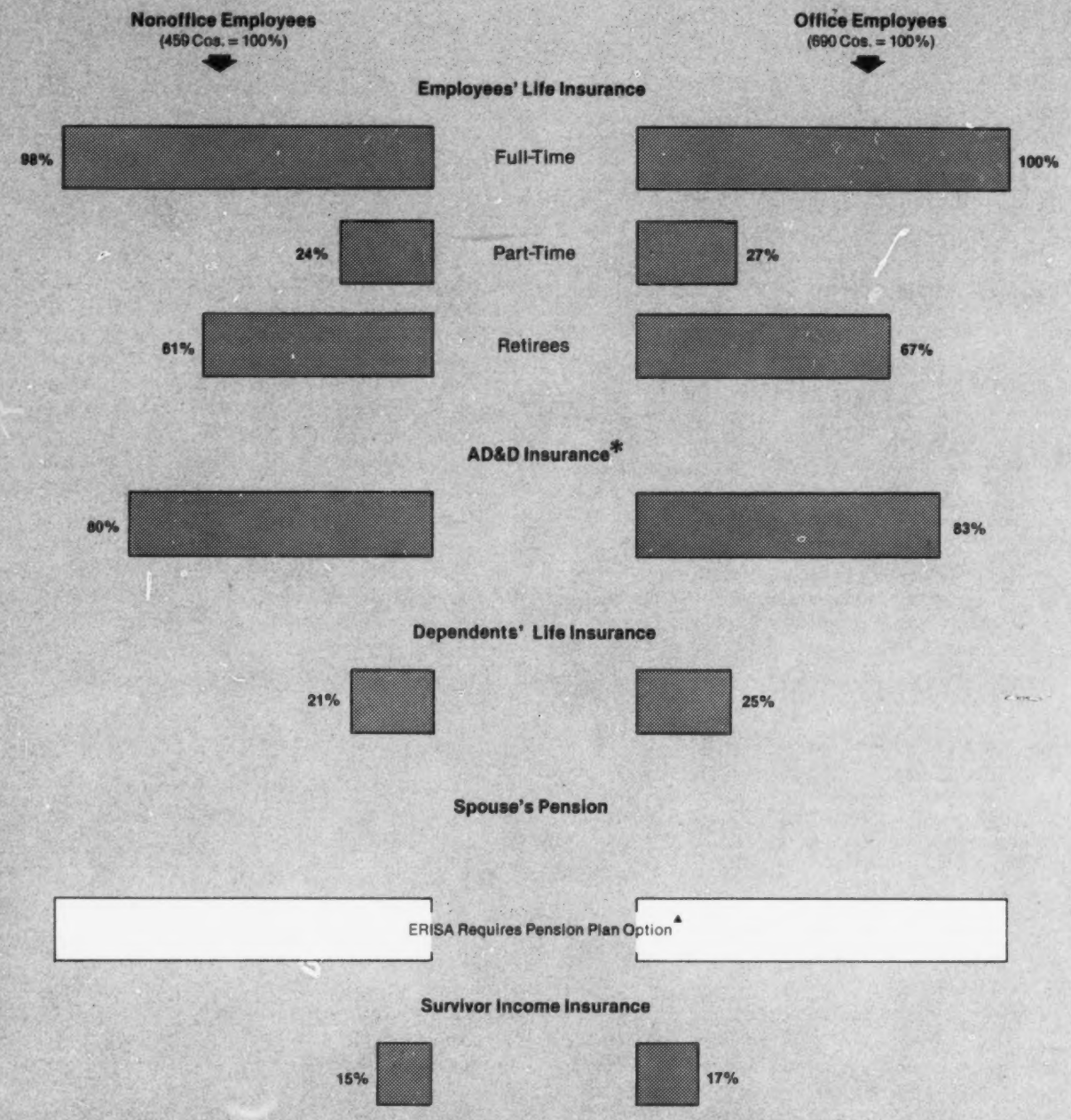
Lump-sum death benefit plans in the form of group life insurance, and accidental death and dismemberment insurance (AD&D), have long dominated this part of the package both in terms of people covered and of dollars spent. Accidental death and dismemberment insurance is in effect in 82 percent of the companies in this survey, an increase from 73 percent in 1973.

Income benefits for survivors, introduced some two decades ago, had been widely adopted by 1973. A 1964 Conference Board survey found that something under 10 percent of 1,200 pension plans provided for widows' pensions.[1] By the time the survey for the 1973 Profile was conducted, 45 percent of the pension plans had spouses' pension provisions. Now, the Employee Retirement Income Security Act of 1974 (ERISA) requires that

[1]Harland Fox, *The Widow's Pension*. National Industrial Conference Board *RECORD*, May, 1964.

Chart 5.1 Variety and Prevalence

Death Benefit Plans



*Accident Death and Dismemberment Plans

▲Employees' Retirement Income Security Act of 1974 requires employee have option to choose 50% joint and survivor option when eligible for early retirement.

A broadly applicable program with a variety of benefits providing for both one-time payments and income.

employees have the option to elect a spouse's pension payable upon death after attaining eligibility for an early retirement pension; this action effectively extends such coverage to 88 percent of the surveyed companies that provide pension plans.

An innovation is the survivor income plan. Not tied to the pension plan, it is more broadly based, and it need not require early retirement eligibility (Chart 5.1).

Principal Trends and Developments

In the long view, the broadening of the death-benefit package to include income benefits is perhaps the most significant trend. Developments within the traditional lump-sum parts of the package may be viewed as the consolidation of past trends. Life insurance, for example, continues to be typically two years' salary, but the proportion of companies providing more than this much coverage has increased from 25 percent in 1973 to 43 percent. This was usually achieved by adding optional coverage supported either entirely or in part by employee contributions.

Other companies have assumed the cost of basic life insurance coverage, increasing the proportion of companies providing some fully paid insurance. Similar developments are evident in accidental death and dismemberment insurance: More companies provide the basic protection free and more offer additional optional coverage—often entirely at the employee's expense.

Life Insurance

Group life insurance is virtually universal among the companies represented by the sample surveyed for this report. Only 2 percent provide no coverage for nonoffice employees, and less than one-half of one percent exclude clerical people. Managers are covered by all of the companies in the sample.

Active Employees

General practice provides pay-based benefits of two times salary. This is the median benefit of all these plans taken as a whole, and thus subsumes wide variations. The middle 50 percent of the plans provide for benefits ranging from one-and-a-half to three times salary. Analysis suggests the impact of two benefits-planning philosophies, which are reflected in the structure and financing of benefits.

Financing

One strategy is represented in plans that provide for optional supplemental benefits. Under these, the employee can have extra life insurance for additional contributions. This "base plus supplement" approach is offered for managers and clerks, respectively, by 51 percent and 47 percent of the companies. Only 29 percent extend this offer to nonoffice employees. The remaining plans do not provide for supplemental coverage; in those companies there is only a base plan (Chart 5.2).

The "base plus supplement" approach requires employee contributions for maximum coverage, of course, but most of these plans provide some basic amount of coverage on a fully company-paid basis. Only 20 percent require employee contributions for the basic coverage.

Similarly, the plans that provide only basic coverage, with no optional amounts available, are also provided free for the most part. About 35 percent of the office groups' plans require employees to contribute, as do 29 percent of the plans for nonoffice employees.

The net effect of all this is that, to receive the best coverage available, employee contributions are necessary in 48 percent of the nonoffice plans, in 64 percent of the clerks' plans, and in 67 percent of the managers' plans. The median employee share under these is 50 percent of the premium, for all groups, with the employee shares in the middle half of the plans ranging from 33 percent (45 percent for nonoffice employees) to 70 percent.

Among plans reporting the employee share, the median is 50 percent but some companies relate contributions to age and are unable to report a single share. This is the case in an estimated 28 percent of the contributory plans for the office groups, and 24 percent of the nonoffice plans that provide for employee contributions.

The Benefit Level and Base-Plan Financing

The evidence suggests that the impact of basic contributions depends on the philosophy of the plan structure, with contributions increasing basic benefits where there is also a supplement, but not where basic coverage stands alone. Among the unaccompanied base plans, the median benefit is two times salary whether or not employee contributions are required. Thus the role of employee contributions is to share the cost of the benefits that are similar to those provided under the wholly company-paid plans (Chart 5.2).

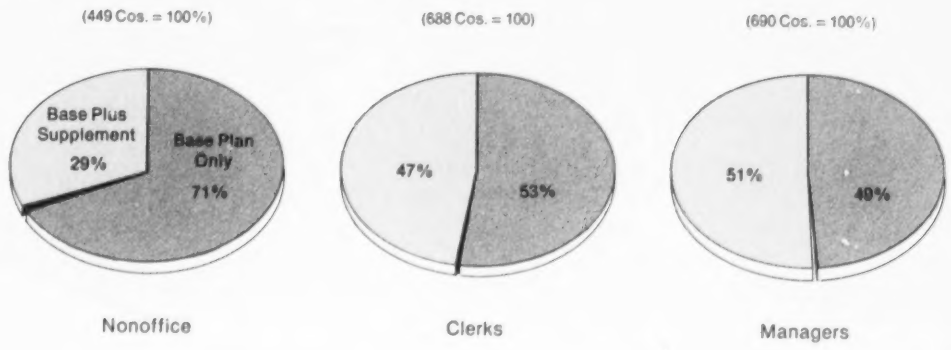
Where there is a base plan plus an optional supplement, assuming the employee elects the added coverage, the median benefit is two-and-a-half times salary. That is the level among plans that provide the base coverage free, and the employee contributes only to the cost of the supplemental coverage. Among plans that also require contributions for the basic coverage, the median is another half-a-multiple higher at three times salary.

Among the richer plans, the supplemented benefit is a full multiple higher than the benefit from the base-only plans. This is reflected by the upper-quartile benefits from the two types of plans: three times pay compared to two times pay, respectively. However, the difference between contributory and company-paid base plans is the same as at the median level—half-a-year's salary where

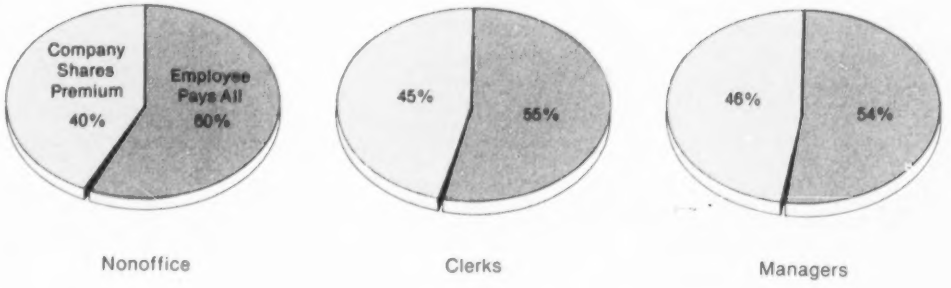
Chart 5.2 **Structure and Financing**

Life Insurance Plans

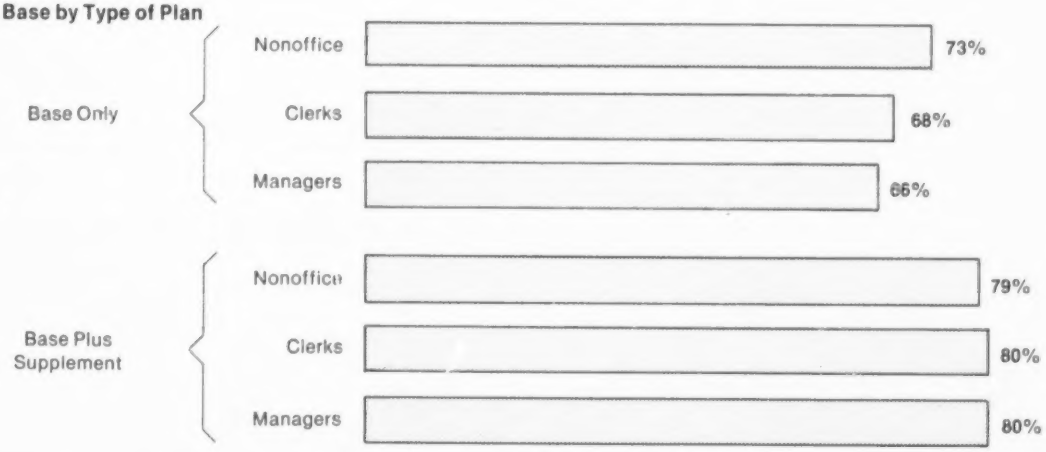
Structure



Who Pays for Supplement



Company-Paid Base by Type of Plan



Most companies provide fully company-paid basic coverage, especially where an optional supplement is provided.

there is a supplement, but no difference among unaccompanied base plans.

Among the more modest plans of the lower 25 percent, the two approaches intermingle; half-a-salary multiple separates base-only and base-plus-supplement plans, but there is no differential between contributory and company-paid base plans of either type.

The Maximum Benefit

An absolute maximum applies to salary-graduated benefits in 83 percent of the plans, a substantial increase from the 65 percent prevalence in 1973. The median limit in these plans is $200,000 of insurance—an increase of 228 percent since 1973. During the same period, top executive salaries increased by less than 70 percent, on the average.[2] Insurance limits vary widely; the middle 50 percent of maxima range between $100,000 and $300,000.

Uniform Benefit Plans

A significant minority of the plans provide for uniform benefits to all participants. Designed for groups whose pay varies within a fairly narrow range, these plans apply principally to nonoffice employees—36 percent of the plans for these people provide uniform benefits. This design is rare among plans for clerical employees—10 percent—and for managers—7 percent—(Chart 5.3).

Predictably, the widest application of uniform benefits is found among blue-collar employees, and 45 percent of the manufacturers' plans for nonoffice employees are of this type. So are three of seven construction plans and four of eleven trucking plans.

Retired Employees

Approximately 67 percent of the companies extend some group life insurance to pensioners from the office, 61 percent to former nonoffice employees—the same levels of prevalence as in 1973. The gas and electric utilities depart widely from the norm, with 94 percent following the practice. So do insurance companies, 83 percent of which extend coverage to retirees. The practice is considerably less widespread among the smaller manufacturers, and in both the retail-wholesale trade group and construction, where prevalence is 33 to 38 percent.

Again, as in 1973, a severely reduced amount is continued for retirees in most instances, reflecting generally lowered responsibilities and the high cost of insurance after retirement age.

Only 4 percent extend the full preretirement protection. Typically the amount of insurance is cut in half—38 percent of the plans do this, but the median post-retirement benefit is one-third of the employee amount.

Most plans—63 percent of the office groups' plans and 71 percent of the nonoffice plans—apply the full reduction immediately upon retirement; about 35 percent do this over a period of years following retirement from the office, while 27 percent do so to nonoffice pensioners' benefits.

Contributions

Generally, the company assumes the entire cost of retirees' life insurance. Only about 20 percent of the plans require contributions after retirement. Where the cost is shared, it is typically shared equally (median); 6 percent require the retiree to pay the full cost.

Part-Time Employees

Life insurance coverage is extended to part-time employees in 27 percent of the companies. In banking, in the retail-wholesale trade group, and in trucking, prevalence is comparatively high at 33 to 38 percent. At the other extreme, fewer of the small manufacturers and construction firms (17 and 22 percent) cover part-time employees. Prevalence is average (25 to 28 percent) among the large manufacturers, the utilities, and the insurers.

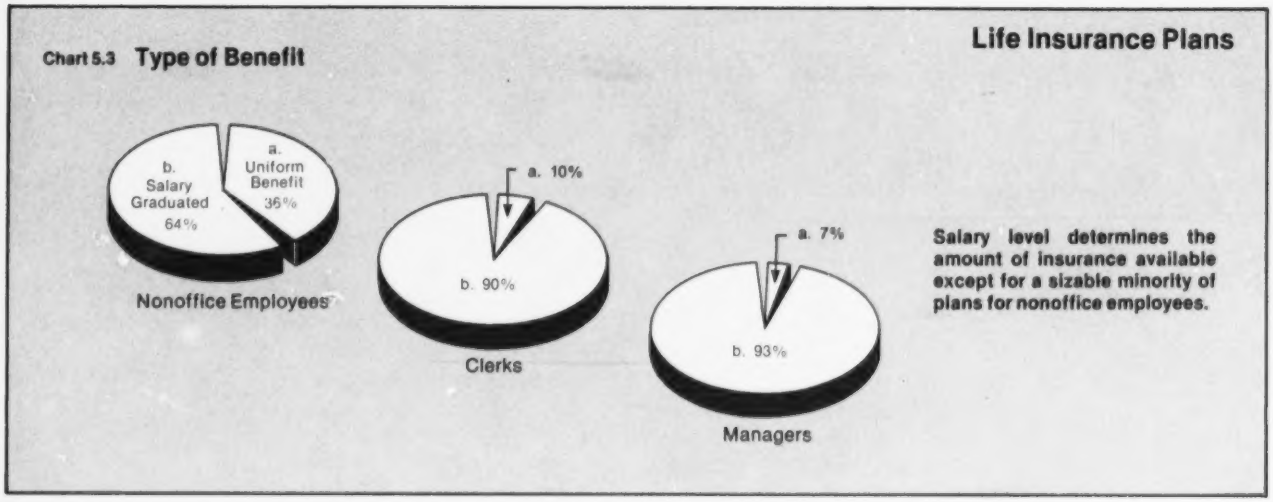
Dependents

Relatively few companies provide group life insurance plans for the dependents of employees, although the incidence of this benefit is increased over the 1973 level. Clerks and managers can cover their dependents' lives in 25 percent of the companies, up from 15 percent in 1973. Nonoffice employees can insure dependents in 21 percent of the companies, as compared to 11 percent in the earlier survey. The differing incidence among employee groups is more the reflection of variations among different types of business than an indication of different treatment of office and nonoffice personnel in the same company. Thus, the prevalence among nonfinancial businesses is 21 percent for office employees—just about the same as for nonoffice people. Among the financial companies, 34 percent provide for this coverage.

Generally, employees pay the full cost of this coverage (52 percent of the nonoffice employees' plans, 66 percent of the office plans). On the other hand, 36 percent of the companies pay the entire premium for nonoffice employees and 23 percent do so for office people.

Basically, this kind of insurance is designed to provide for burial expenses. Over 90 percent of the spouse coverages amount to $1,000 to $5,000, for all employee groups (median: $2,000); 15 percent of the nonoffice employees' plans provide $5,000, as compared to 20 percent of the office plans. Dependent children's insurance

[2]Harland Fox, *Top Executive Compensation, 1980 Edition.* The Conference Board, Report No. 793, 1980, p. 7.



is even more homogeneous; about 60 percent of the plans in each group provide $1,000; only 10 percent exceed $2,000.

Accidental Death and Dismemberment Insurance

Group accidental death and dismemberment insurance (AD&D) provides a benefit in the event of accidental death and also pays benefits for specified types of accidental dismemberment. The "principal sum," or face value, is paid for accidental death or in case of multidismemberment; one-half of that amount is paid for the loss of a limb or an eye.

Among the surveyed companies, 83 percent provide AD&D plans, representing an increase of 9 percent over the 1973 survey. As in that year, the benefit's prevalence is not significantly different from one employee group to another. Furthermore, the level of prevalence is high in all types of business surveyed, ranging from 69 percent of the gas and electric utilities to 89 percent of the smaller manufacturers.

Normally the accidental death feature of these plans amounts to "double indemnity," since about 76 percent specify principal sums equal to the life insurance that is provided for the typical employee. This is so whether the benefit is a uniform-dollar amount or varies with salary. The benefit is stated as a uniform-dollar amount in 51 percent of the AD&D plans for nonoffice employees, and in 28 percent of the plans affecting the office groups.

AD&D is fully company-paid in 80 percent of the nonoffice plans and in 73 percent of the office plans. The remaining plans require that the employee share the cost with the company (10 and 12 percent), or pay the entire premium (10 and 15 percent).

The employee can elect optional extra coverage in 20 percent of the plans for nonoffice employees and in 27 percent of the office groups' plans. Overwhelmingly (82 percent of nonoffice plans, 88 percent of office plans),

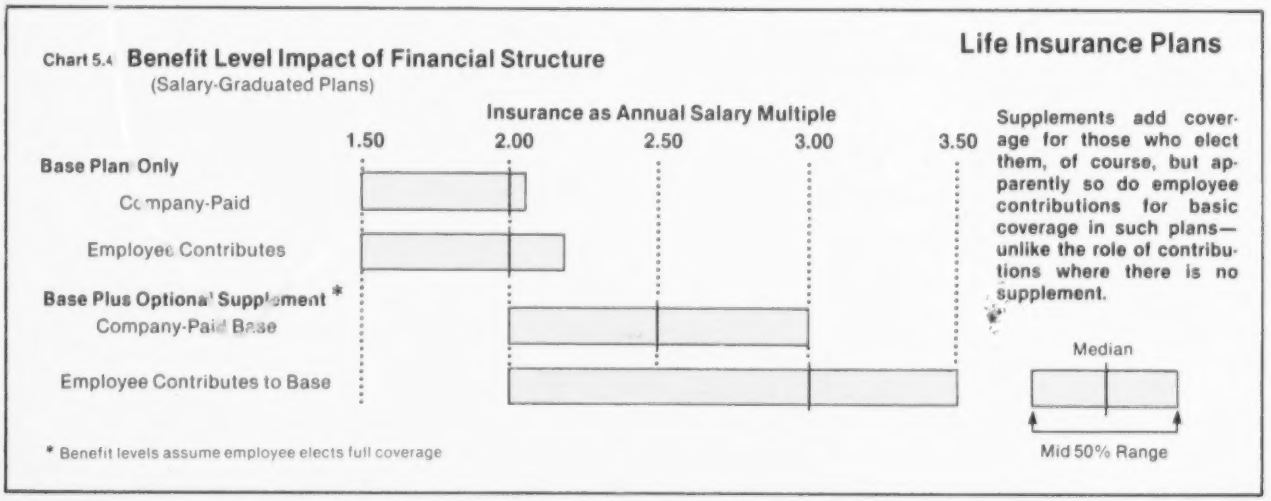


Chart 5.4 Benefit Level Impact of Financial Structure
(Salary-Graduated Plans)
Life Insurance Plans
Insurance as Annual Salary Multiple
1.50
2.00
2.50
3.00
3.50
Base Plan Only
Company-Paid
Employee Contributes
Base Plus Optional Supplement *
Company-Paid Base
Employee Contributes to Base
Supplements add coverage for those who elect them, of course, but apparently so do employee contributions for basic coverage in such plans—unlike the role of contributions where there is no supplement.
Median
Mid 50% Range
* Benefit levels assume employee elects full coverage

the employee pays the full cost of any extra coverage elected.

Spouse's Pension

A spouse's pension, as the term is used here, is a lifetime pension payable to the spouse of an employee who dies prior to retirement. The definition does not include benefits payable as a result of death after retiring, as in the case of the joint and survivor option.

The Employee Retirement Income Security Act of 1974 (ERISA) requires that employees participating in a pension plan have the option to elect a spouse's pension, payable upon death, after attaining eligibility for an early retirement pension. The effect is to extend eligibility for spouse protection to virtually all of the 88 percent of the surveyed companies providing pension plans for their employees.

The law requires only that this coverage be an option. The employee can be required to pay for the provision, if chosen, as by accepting an actuarially reduced pension. However, 77 percent of the responding companies with pension plans report paying at least part of this cost for employees. This practice is most prevalent among the gas and electric utilities (88 percent) and in finance (82 percent); among the nonfinancial companies, other than utilities, 71 percent help defray this cost for employees.

The law makes this benefit available at early retirement age, and most of these plans do specify age 55 or older, although it is available earlier in 19 percent of the plans. Actually, another plan has been adopted by companies that want to provide income for employees' dependents.

Survivor Income Plans

A modern innovation, independent of the pension plan, is offered by 17 percent of the respondent companies: survivor income plans. These are designed to provide a monthly income to one or more survivors of an active employee who dies in service. A principal appeal to management is this plan's exclusive application to the target group—employees with dependents. The cost can also be further reduced through integration with social security survivors' benefits.

Chapter 6

Pay for Unemployment

Profile

The average survey company's severance-pay practice is not well-established. Although the average company is somewhat more likely than not to have a plan, it only has one for its office employees.

The typical severance-pay plan, particularly outside of the large manfuacturing companies, is designed primarily to deal with hiring errors. It provides for essentially nominal payments—one or two weeks' salary is common—to all covered employees whether or not their service is extensive.

The leading edge company, typically a large manufacturer, extends severance-pay coverage to nonoffice employees, and carries the practice well beyond the correction of mistaken hires, typically providing for substantial payments to career employees. After 20 years of service, the median plan provides 20 weeks' salary to terminated managers, 16 weeks' salary to clerical terminees, and 13 weeks' pay for nonoffice employees who are terminated.

THE COURSE of normal business activity sometimes requires management to "let people go" under conditions ranging from mass layoffs to individual terminations. In situations with large numbers laid off or terminated, various systems for allocating the separations among the internal work force or to external groups may be brought to bear. Proposals to shift the unemployment to external work forces may involve the "in-house" production of parts or services normally produced by others, whether purchased on the open market or through purchase contracts. Union pressure or pleas may foster proposals to favor organized plants within the company; of course, the opposite may be a temptation contemplated by management where relationships with unions are rancorous.

However effective or unsuccessful attempts at allocation turn out to be, work-force reduction is the ultimate application of a retrenchment policy. The work force can sometimes be reduced through a variety of means before layoff or termination become necessary, including such now familiar tactics as the hiring freeze and incentives for early retirement.

Early retirement inducements constitute a benefits approach, of course; and, when it becomes necessary to let people go, the benefits approach may be the only way to soften the effect of the crisis. (Outplacement programs are sometimes useful, however.)

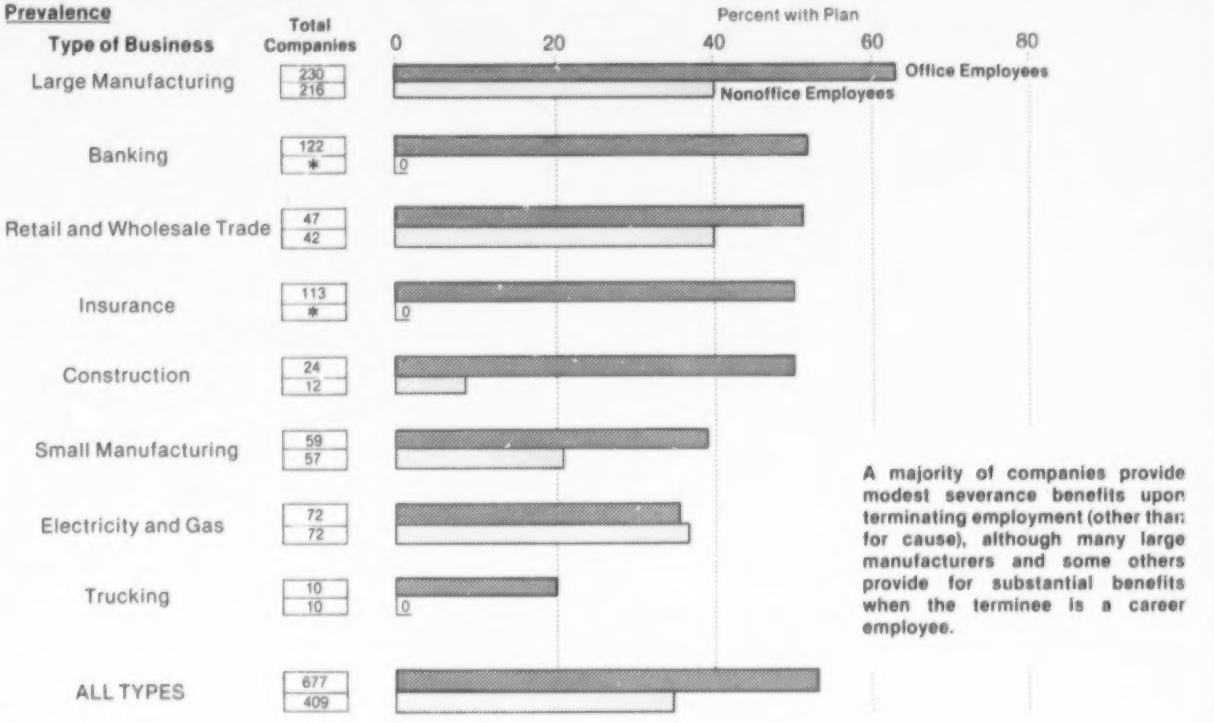
Capital accumulation plans provide resources for participating employees at the time of separation from service, but this is not the principal function of such programs. The effects of seniority or service systems for allocating the unemployment, too, tend to result in concentrating the layoffs among those who will get the least benefits from a capital accumulation plan.

The benefit approach to separation problems is applied most directly in government programs of unemployment compensation and two kinds of private programs. One, supplemental unemployment benefits (SUB) plans, found in less than 14 percent of the large manufacturers surveyed here, is the subject of another Conference Board Report.[1] These programs apply to a small proportion of the nation's work force, but they are particularly significant where collective bargaining is strongly in-

[1]Audrey Freedman, *Security Bargains Reconsidered: SUB, Severance Pay, Guaranteed Work*. The Conference Board, Report No. 736, 1978.

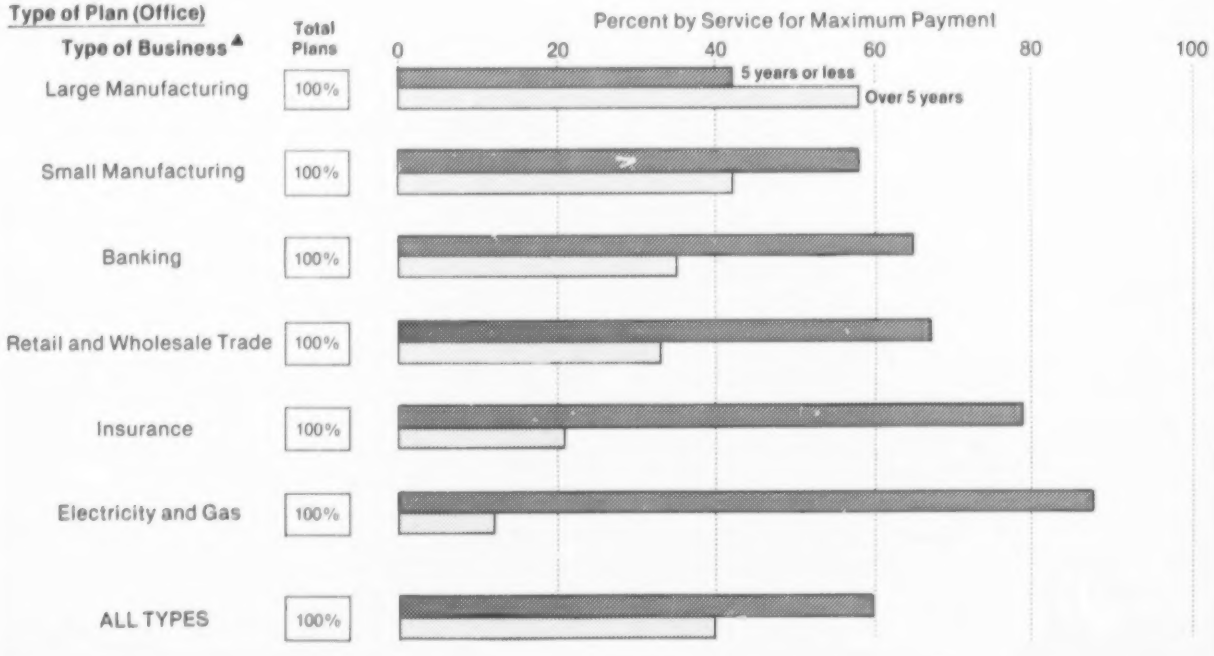
Severance-Pay Plans

Chart 6.1 **Prevalence and Type**



A majority of companies provide modest severance benefits upon terminating employment (other than for cause), although many large manufacturers and some others provide for substantial benefits when the terminee is a career employee.

* Not applicable



▲ Too few construction and trucking plans preclude their separate presentation

fluenced by the Autoworkers' and the Steelworkers' negotiations. This chapter describes the other, more widespread, type of private program: severance-pay plans.

Severance-Pay Plans

Severance-pay plans are intended to provide benefits out of general company funds when the company finds it necessary to terminate employment for any one of a variety of reasons other than "cause." Terminations that qualify for severance pay vary from plan to plan, but in general these plans cover permanent severance of the employment relationship.

Severance-pay plans for office employees are about as common now as in 1973: 53 percent of the companies report such plans. Severance pay continues to be most common among the large manufacturing companies surveyed, 65 percent of which have such plans. The level of prevalence is average in banking, in insurance, and in the wholesale and retail trade group—50 to 53 percent of these groups have plans. Fewer plans are offered by the smaller manufacturers—40 percent—or by the electric and gas utilities, 36 percent of which provide for severance pay.

Severance-pay plans for nonoffice employees exhibit the same level of prevalence as in the earlier survey—35 percent of the companies cover these employees. This generally lower prevalence than that found in the office is repeated in all of the business classifications used in this survey save one. The 36 percent of the utilities that have severance pay follow the employee benefits custom for that business and apply the plan to *all* employees.

Eligibility for Minimal Payments

Even when the most sophisticated tools are used, hiring errors occur, and the severance plans studied here anticipate the need to correct for such erroneous decisions. Thus, eligibility requirements are largely nominal. Only 8 percent of the plans affecting clerical employees specify more than a year of service, while 36 percent require one year, and six months or less is deemed sufficient by 55 percent. The amount of severance pay for terminating a clerical employee who just satisfies the plan's eligibility requirement usually is one or two weeks' pay. One week is somewhat more common than two—50 percent of the plans as against 43 percent—and more than two weeks for the minimally eligible is provided by only 7 percent of the plans.

By and large, managerial employees qualify for benefits under the same service requirements as clerical employees, but in some companies they receive larger payments at this point of marginal eligibility. Almost 16 percent of the plans provide more than two weeks' pay for this group, while 40 percent afford less than two. These larger severance payments are most prevalent among large manufacturers, 21 percent of whom provide this much for managers.

Some nonoffice employees' plans, on the other hand, are more exacting insofar as eligibility is concerned. Thus, requirements of more than a year are more than twice as common—20 percent—as among the office plans, and only 39 percent specify six months or less.

In addition to stiffer eligibility rules in some plans, the minimal payments are often lower for nonoffice employees. Thus, 64 percent provide one week's pay or less, as compared to 49 percent for the clerical plans. On the other hand, payments in excess of two weeks to nonoffice employees are more common at almost 14 percent of the plans—nearly as common as among the managers' plans.

Plan Types

For most types of business studied—in fact, among all but the large manufacturers—the plans are principally designed to provide benefits for employees who are terminated as the result of what we have called "hiring errors." Such plans provide for a flat severance amount for all who are let go (other than for "cause"), although the benefits in a few are somewhat higher for the terminee on the payroll a bit longer than is required for basic eligibility. These plans reach modest maximum benefit levels after no more than five years of service—maximum benefits of one or two weeks' pay, for the most part. These "short-service plans" account for 60 percent of the severance-pay sample; 72 percent when the large manufacturers are excluded.

Long-Service Plans

Some 40 percent of the plans are also designed to deal with situations characterized by substantial periods of company service. These encompass career employees whose employment is severed because a plant closes, a department is eliminated, or for some other reason aside from personal fault. These "long-service plans," which provide maximum benefits after six years or more of service, are the majority practice (58 percent) among large manufacturing companies. They represent varying proportions of the plans in other businesses.

Among the small manufacturers, the commercial banks and the retail-wholesale group, prevalence ranges from 33 to 42 percent. Some 21 percent of the insurers' plans are of this type, and only 12 percent (3 plans) of the 26 electric and gas utilities' plans credit more than five years of service.

Maximum payments in these long-service plans generally are several times the one or two weeks' salary payments of the short-service plans. This is evident from the following tabulation of maxima in plans that credit more than five years of service:

	Number of Weeks' Pay by Employee Group Affected		
	Nonoffice	*Clerks*	*Managers*
Median Limit.....	13	16	20
Middle 50%			
High.....	40	26	26
Low	8	10	12

Considering that the long-service plans are most prevalent among the large manufacturers, it is no surprise to find that group providing the largest severance payments. Median plans of that group make maximum payments of 24 weeks' pay to managers and clerks, 16 weeks to nonoffice employees.

There is no surprise either in the fact that substantial periods of company service are required to qualify for maximum severance payments under these plans. The median requirement in all employee groups is 20 years. The middle 50 percent of the plans specify from 12 or 13 years to 26 years for clerks and managers, 10 to 30 years for nonoffice employees.

Chapter 7

Time Off with Pay

Profile

Almost all the surveyed companies provide paid vacations and holidays, as well as paid time off to attend to the more serious personal, family and civic responsibilities.

In the main, office and nonoffice employees are covered by the same paid leisure provisions, but nonleisure coverages—such as civic duties and personal time—are less extensive for nonoffice than for office employees.

The average company's maximum yearly vacation is five weeks, and its vacation schedule specifies the following requirements for two-, three-, and four-week vacations for office and nonoffice employees alike:

- **4 weeks—15 years of service**
- **3 weeks— 7 years of service**
- **2 weeks— 1 year of service**

An initial one-week vacation is provided for the newly hired after six months of service—both for office and nonoffice employees.

At an average company there are ten paid holidays, including six standard days:

- **New Year's Day**
- **Memorial Day**
- **Independence Day**
- **Labor Day**
- **Thanksgiving Day**
- **Christmas Day**

One additional day—the Friday after Thanksgiving Day—is specified by a majority of the sample, but no other single day is. The next most commonly named days are:

- **Good Friday**
- **Day before or after Christmas Day**
- **Washington's Birthday**
- **Veterans Day**
- **Day before or after New Year's Day**
- **Columbus Day**

The seventh, eighth, ninth and tenth days create long weekends, or—in the case of the day before or after Christmas or New Year's—do so in most years.

Nonleisure paid time is broader in scope for office employees than for nonoffice employees. Office employees are covered in at least a majority of the companies surveyed by paid-time-off policies for six types of civic service. There is virtually universal coverage of jury duty; most companies also pay for time lost because of trial witness service and military duty (both summer encampment and duty during civil emergencies, i.e., riots, floods, etc.). Many companies also allow paid time off for nonmilitary service in civil emergencies and, when necessary, the majority provide paid time to vote in public elections.

In addition, bereavement leave with pay is virtually a universal paid-time-off practice. Most office employees are also covered for medical and dental appointments that they must keep during business hours.

A leading edge company specifies a maximum yearly vacation of six weeks after 30, or in some cases, 25 years of service. It provides five weeks after twenty years, four weeks after ten years, and three weeks' allowance after five years' service. Its holiday schedule includes probably one—but possibly two—more days than the average company's.

A MODERN COMPANY pays the employee for a variety of activities not actually involving working for the company. Paid vacations and holidays—along with salary continuation during performance of specified civic responsibilities and paid personal time off—are discussed in this chapter.

There are time-off allowances—such as rest periods, coffee breaks, time to change clothes, or to wash up—during paid hours in the plant, office, warehouse, store or bank. Such paid time at the workplace is *not* included in this chapter, which is concerned only with paid time *away* from the job. In addition, paid sick leave is discussed along with other disability income plans in Chapter 3.

Paid time away from the job has undergone rapid change since the last Profile survey was conducted in 1973. This is particularly true of vacation practices. Those changes that affect "junior" employees are likely to have the earliest impact on cost. These include changes in the new employee's eligibility for the first vacation—especially for nonoffice employees—and reduced eligibility requirements for two-week and three-week vacations.

For the longer term, there is the potential impact of the shift to maximum vacation allowances of five and even six weeks, and of the reductions in service requirements for the fourth week to fifteen years and less.

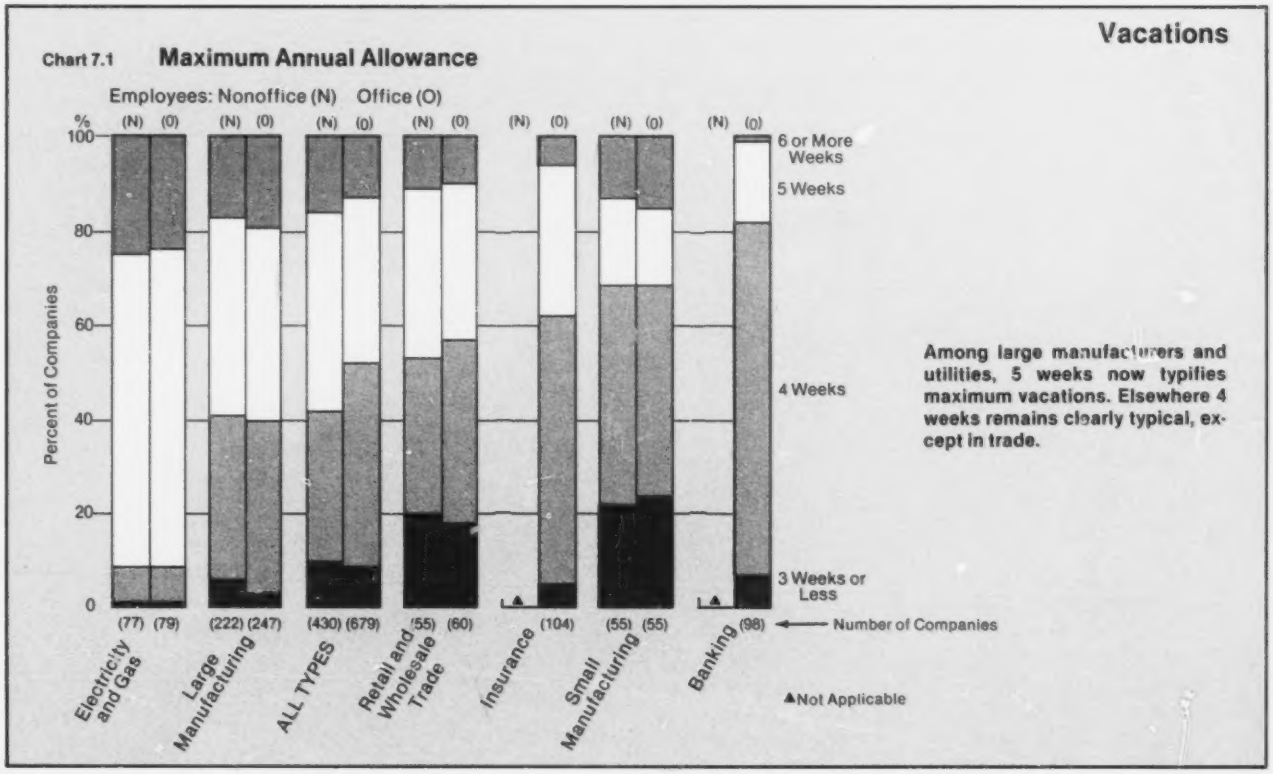
Holiday practices continue along paths that had been well established by 1973. Another day has been added since then, on the average, and days adjacent to major holidays—such as Thanksgiving, Christmas and New Year's Day—continue to gain popularity.

The liberalization of paid time-off practices is an uneven process, replete with variations by type of business, and with remnants of historic geographical differences. Although much liberalization is attributed to union pressures, the evidence of the impact of collective bargaining is frequently more modest than popular perceptions suggest. Exempt employees, generally subject to the same practices as clerical employees, at times are provided with liberalized benefits first, particularly in financial businesses. The erosion of office-nonoffice distinctions during the initial period of an employee's career continues, in general, but type of business variation produces the exception that tests this rule, too.

Vacations

Since the 1973 Profile study was conducted, the five-week annual vacation allowance, which had been introduced earlier, continued to spread and is now typical of the maxima for nonoffice employees, and it is widespread in offices, too (Chart 7.1).

The prevalence of this maximum varies widely from one type of business to another. In general, it is more common where nonoffice employees' vacation programs are represented in the sample. The five-week maximum is



somewhat more common among the nonoffice employees' plans (42 percent) than for office employees (35 percent). A typical company, though, applies the same maximum to both groups, and vacation limits are generally similar for office and nonoffice people *in the same type of business.*

The longest vacations in the eight business categories studied here are provided in the electric and gas business—in terms of the maximum allowance. Five weeks is the maximum in 67 percent of this group, while only 9 percent set lower limits. The fifth week is widespread, too, although to a lesser extent, in large manufacturing—where 41 percent of these companies have estabished it as maximum, while another 19 percent provide for even longer allowances.

Thus, even as the five-week vacation becomes the typical maximum, about 13 percent of all the companies in this study have added a sixth week to the schedule of office employees. The four-week limit remains most firmly entrenched in the financial institutions; 75 percent of the banks and 57 percent of the insurers specify four weeks. However, many in these groups provide for additional vacation outside of the regular annual allowance schedule (see "Extended Vacations" below). Maxima of less than four weeks are still common among the twenty-four construction companies surveyed where 13 specify three weeks or less.

Qualifications

A yearly six-week vacation probably remains rare, even where the vacation schedule recognizes it, because of the required periods of qualifying service. The typical eligibility continues to be 30 years, as in 1973; 53 percent of the companies that provide for these vacations require that much service, or more, for office employees to qualify, and 20 percent specify 25 years. Requirements for nonoffice employees are similar (Chart 7.2).

Typically, only those who are employed by a company for 25 years qualify for a five-week vacation each year. Just over 50 percent of the companies with this policy (almost as many as in 1973) require as much service or more. Fully 31 percent allow this much vacation after just 20 years for both office and nonoffice employees.

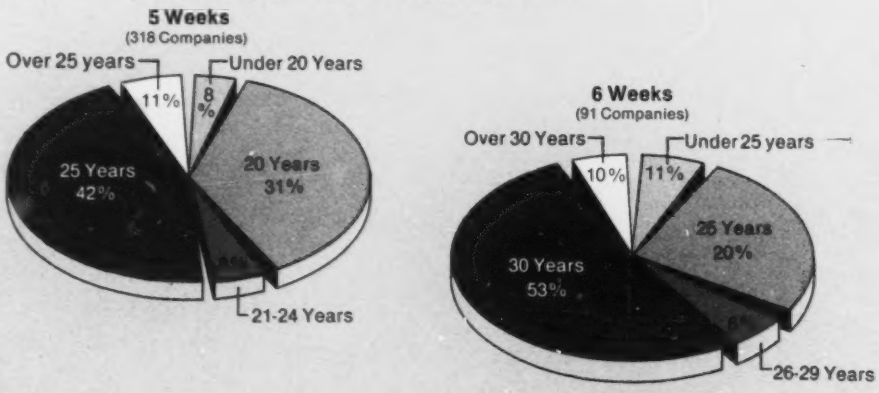
Among large manufacturers and the utilities—businesses where five weeks is the typical maximum—service requirements differ considerably. In large manufacturing, for example, 55 percent of the five-week allowances are earned in 20 years or less, but among the utilities only 13 percent are. Sixty-six percent of the utilities require 25 years or more, while only 40 percent of the large manufacturers do so. Sevice requirements are materially the same for office and nonoffice employees, particularly in the same kind of business.

Four-Week Vacations

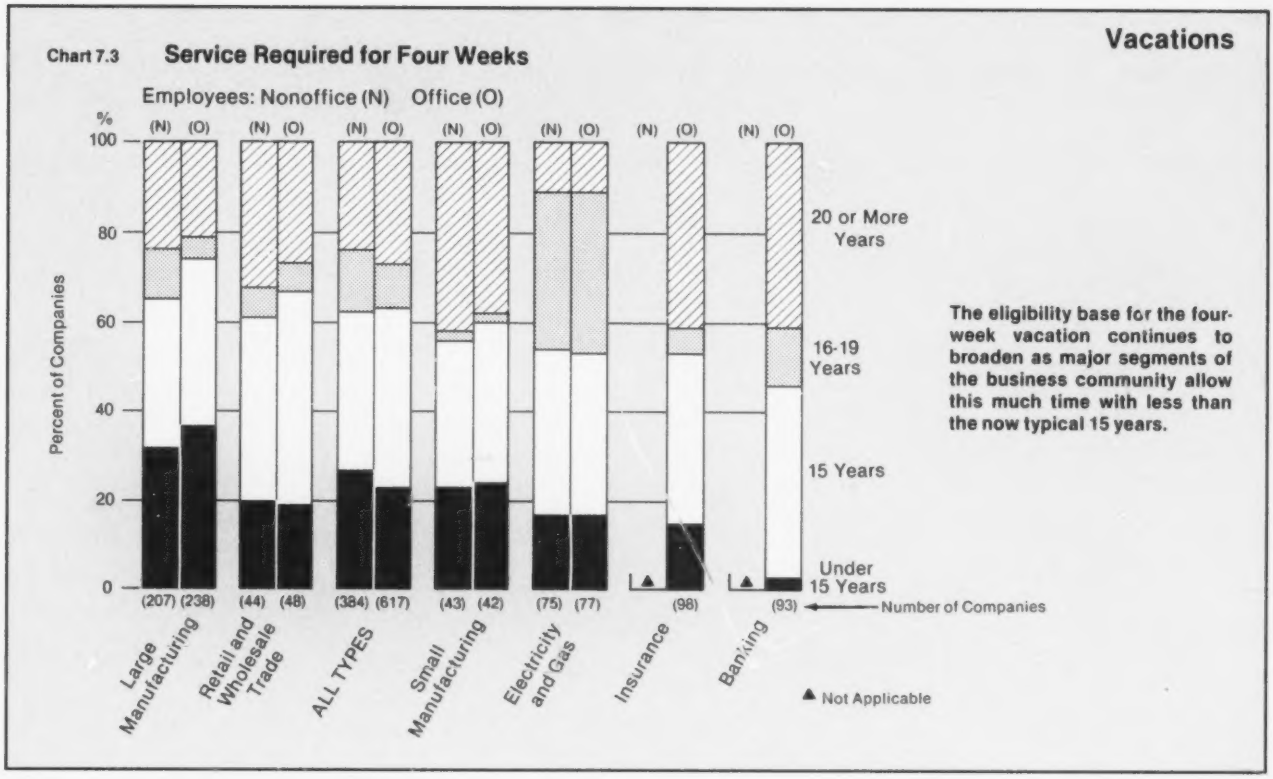
Eligibility for the four-week vacation has broadened as most businesses shifted from requirements of 20 years to 15 years or less of service. Some 40 percent of the companies specify 15 years as the eligibility requirement for nonexempt office employees; and another 23 percent require even less service, representing a rapid change from the 35 percent that required 15 years or less in 1973 (Chart 7.3).

Nonoffice employees appear to enjoy somewhat lower requirements, due largely to their absence in the financial companies that generally have more stringent specifications. It is rare for a bank to require less than 15 years' service (just 3 percent do); among the insurers, 15 percent have this more lenient requirement. In fact, the exclusion of these two businesses from the clerks' sample increases the percent with requirements of 15 years or less to 69 percent as compared to 62 percent for the nonoffice group in the same nonfinancial businesses.

Chart 7.2 **Service Required for Five and Six Weeks**



Five- and six-week vacations, where provided, typically are allowed after 25 and 30 years, although some reach these limits sooner.



Three-Week Vacations

Perhaps the most significant change in vacation practices is the rapidity with which the third week of vacation is being provided for relatively short-service employees. In 1973, just 20 percent of the *Profile* companies allowed this much vacation to employees—both office and nonoffice—with five years of service or less. Now this practice applies to nonexempt office employees in 39 percent of the companies, and to nonoffice employees in 33 percent (Chart 7.4).

Overall, the median service requirement for three weeks is seven years for office employees and eight years for nonoffice employees. This reflects near-equal incidence of five-year, six-to-nine year, and ten-year requirements (34 percent, 27 percent, and 29 percent, respectively, for the clerical employees, and similarly for the nonoffice group). Mainly this reflects a state of flux as requirements move down from ten to five years.

The three-week vacation is available after five years or less to office employees in 49 percent of the large manufacturers and to nonoffice employees in 38 percent. (Other businesses treat office and nonoffice employees substantially the same in this regard.) Five years of service is the typical requirement in the retail and wholesale trade group (45 percent), as well as in construction (11 of 18 companies).

Higher requirements still prevail in small manufacturing where 55 percent specify ten years or more, and in trucking where nine out of twelve companies require the same level of service. Among the electric and gas utilities, 66 percent have requirements of from six to nine years.

Two-Week Vacations

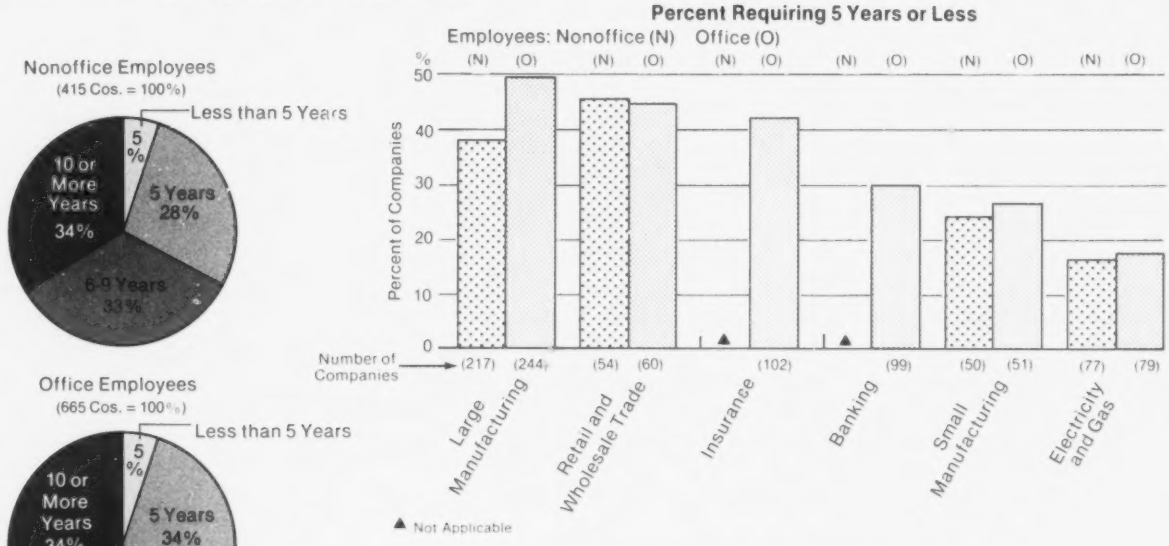
Traditionally, requirements for the two-week vacation have been more stringent for nonoffice employees in many companies. This practice persists, but its gradual elimination, evident in the 1973 survey, continues.

One year of service is required of office employees for a two-week vacation by 87 percent of the companies, but 57 percent of the companies have this requirement for nonoffice employees. (In 1973, these percentages were 81 and 36, respectively.) Only 13 percent of the office employees' requirements exceed one year, but 23 percent of the nonoffice plans specify two years and 21 percent call for three years or more.

Office-Nonoffice Requirements Converge

To some extent, the differing requirements for office and nonoffice employees early in their careers reflect practices that vary from one type of business to another. Among financial institutions, for example—which do not report on nonoffice employees—fewer than 3 percent require more than a year of service for two weeks' vacation, as compared with 17 percent for the nonfinancial companies. Nonetheless, the difference in requirements

Chart 7.4 **Service Required for Three Weeks**



The median service requirement for three weeks' vacation appears poised to move down from 7 years as large minorities allow this much time after just 5 years.

for office and nonoffice employees in the same type of business is often striking. This is still true despite reductions since 1973 for both groups in requirements exceeding a year.

In small manufacturing, requirements as high as three years or more are specified for nonoffice employees by 31 percent of the companies (down from 53 percent in 1973), but only 13 percent of the requirements are as stringent for office employees. In large manufacturing, nonoffice and office requirements of this length of time account for 27 percent and 5 percent, respectively. Outside of manufacturing, few companies specify such stringent requirements for a two-week vacation.

Despite the broad egalitarian trend, the gap actually widened in retail and wholesale trade as office employees' requirements were reduced more rapidly than those for nonoffice employees. The incidence of requirements exceeding one year dropped to 25 percent from 58 percent in 1973 among office plans, and to 47 percent from 72 percent among nonoffice plans.

The New Hire

Erosion of office-nonoffice distinctions is evident from the start of an employee's career (Chart 7.5). The first vacation for a newly hired office employee has long been available after six months on the payroll in most companies: 77 percent now have this policy as compared to 74 percent in 1973. And this practice has been extended to nonoffice employees in 57 percent of the companies as compared to 42 percent in 1973.

Vacation practice for the new employee usually fits one of three general patterns: The first vacation is available either after a full year, or six months, or with less than six months' service. The length of this initial vacation depends largely on which pattern is followed. Thus, where six months of service earns a vacation, there is usually a one-week period. Where the requirement is less than six months, the vacation period usually is determined by prorating the allowance that is available after a year; this normally nets less than a week. In both of these patterns—that is, for six months service or less—the amount of vacation that is available to office and nonoffice employees is substantially the same. This is not so in those companies that still allow no vacation before a full year. In such companies, the office employee is more often allowed two weeks (63 percent of such companies) than is the nonoffice employee (26 percent). The latter is more likely to obtain an initial one-week vacation (70 percent).

Exempt Employees

As a general proposition, most companies apply identical vacation policies to managerial employees and the nonexempt clerical work force. There are specific situations, however, when some companies diverge from this pattern, sometimes anticipating the future by stepping to the forefront of vacation trends for the exempt force.

Currently, extraliberal practices for exempt personnel usually apply to qualifications for the third and fourth vacation weeks, but not to the maximum allowance. Thus, the three-week vacation is an occasion for distinguishing exempt employees from nonexempt by applying the most liberal requirements only to the managerial group in something over 6 percent of the companies. While this practice is represented to some extent in all businesses but construction and trucking, it is confined largely to banking and insurance. It is most characteristic of the banking business, where 28 percent of the companies follow the practice, but so do 10 percent of the insurers.

Similarly, the four-week vacation is allowed before 15 years for managerial employees by 4 percent more of the companies than specify such liberal requirements for their clerical personnel. This practice, too, appears in most businesses—the exceptions are small manufacturing, construction and trucking—yet it is rare in all but the banking business, where 25 percent of the companies have adopted it.

Collective Bargaining

Vacations are a perennial issue in collective bargaining, and the unions' interest is reflected in longer maximum vacation allowances and shorter service requirements for unionized nonoffice employees. The evidence of the unions' impact on service requirements is, however, uneven.

Among companies that bargain benefits with nonoffice employees' unions, 67 percent provide maximum vacation allowances of five weeks or more, while only 37 percent of those that do not engage in bargaining allow these longer periods. Similarly, only 5 percent of the bargained plans limit vacations to three weeks or less, while 19 percent of the unilateral plans do.

The unions' leadership position in liberalizing service requirements appears transitory. At this stage of development, the most liberal provisions for the third and fourth weeks of vacation are equally common among bargained and nonbargained plans. However, the nonbargained plans tend to retain the more severe requirements to a greater extent than do the bargained plans. Thus, at least 20 years' service is specified for the fourth week by 21 percent of the bargained plans, but by 31 percent of the nonbargained plans. For three weeks, only 29 percent of the plans resulting from collective bargaining require ten or more years of service, as compared with 44 percent of the nonbargained plans.

Geography

Besides the factors already discussed, the length of an employee's vacation depends partly on the region of the country where he or she is employed. All other things being equal, the chances of more vacation are greater in the Middle Atlantic, North Central, and Pacific regions. Conversely, vacation allowances tend to be somewhat smaller in the South Atlantic and East Central regions (Chart 7.6).

These observations derive from nine regional analyses of three aspects of the vacation schedule: the maximum allowance and service requirements for three- and four-week vacations. With the exception of the South Atlantic, no section of the country is selected as among either the most or the least liberal regions in more than two of the three analyses. Three regions have larger maximum allowances than the rest, as measured by the median: five weeks in the Middle Atlantic, and in the East and West North Central states. This compares with four weeks in the overall sample.

The Middle Atlantic, again, and New England and the Pacific have the lowest service requirements for the three-week vacation: five years or less are required by 48 percent, 48 percent, and 54 percent, respectively (compared

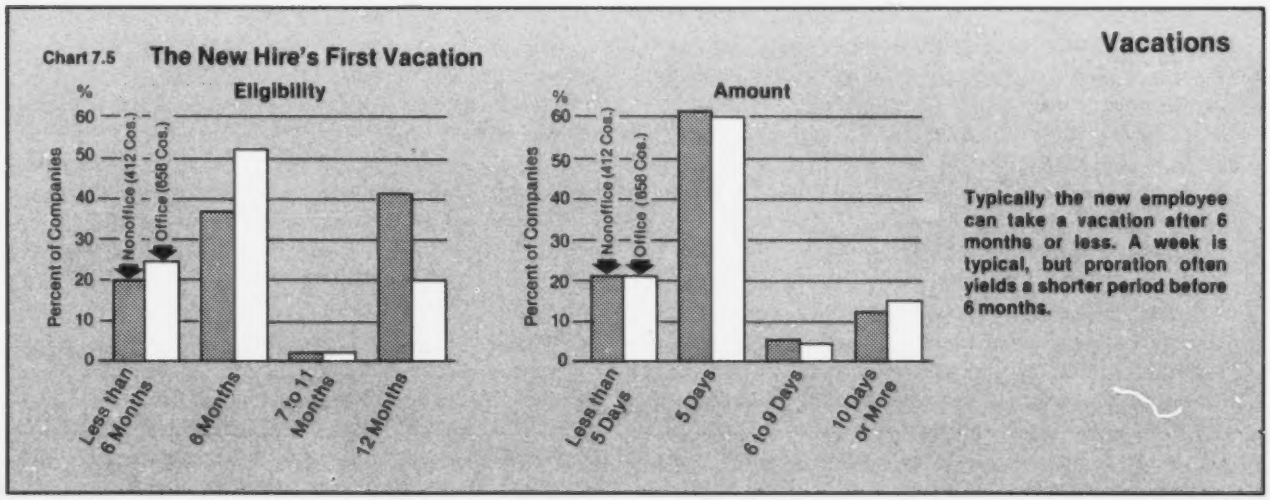
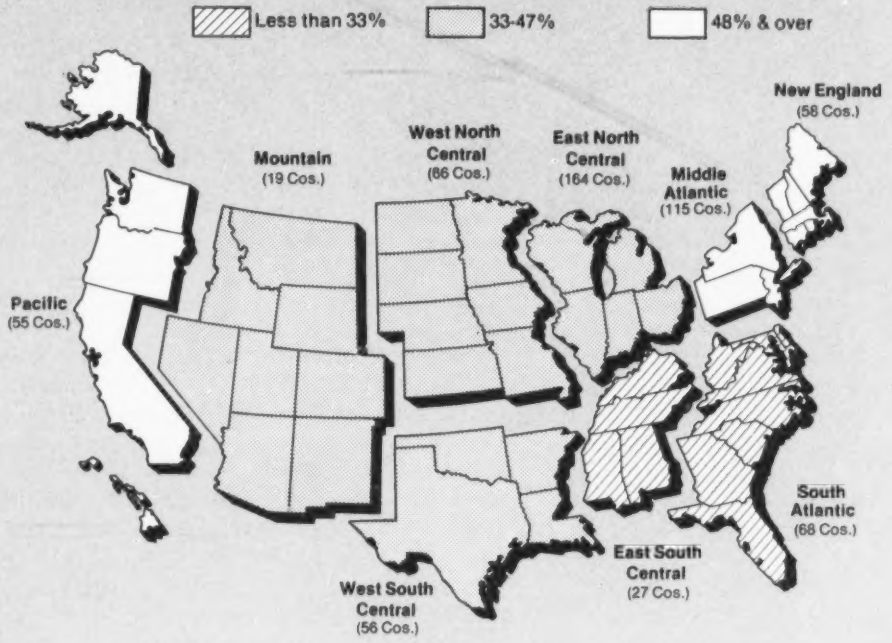


Chart 7.5
The New Hire's First Vacation
Vacations
Eligibility
%
Percent of Companies
Nonoffice (412 Cos.)
Office (658 Cos.)
Less than 6 Months
6 Months
7 to 11 Months
12 Months
Amount
Less than 5 Days
5 Days
6 to 9 Days
10 Days or More
Typically the new employee can take a vacation after 6 months or less. A week is typical, but proration often yields a shorter period before 6 months.

Chart 7.6 **Prevalence of Three Weeks After 5 Years Service by Geographic Area**



Available earliest in the northeast and far west, the third week comes late in two southern areas.

with 39 percent overall). The Pacific is the only region in which substantially more companies require 15 years or less for the four-week vacation: 76 percent compared to 63 percent nationally.

The least liberal vacation practices are found in the South Atlantic and East South Central regions. The South Atlantic is the only region among the nine studied where as many as 26 percent of the companies allow maximum vacations of less than four weeks. In the broad sample, only 9 percent are as restrictive. The South Atlantic and the East South Central states have median service requirements of ten years for three weeks, compared with seven years nationally. These same two regions have the least liberal standards for four-week requirements as well. Both require 20 years in the median company, while 15 years prevails nationally.

Extended Vacations

Employees in 15 percent of the companies receive extra vacation time in specified anniversary years. Probably the most widely publicized plan of extended vacations is the one negotiated with the Steelworkers in the basic steel industry. This program, which was designed expressly to increase employment security in that industry, extends the vacation allowance once every five years to thirteen weeks (fourteen weeks for those with twenty-five years' service) for the senior half of the work force (determined by seniority), and adds four weeks of vacation to the junior half's allowance.

Another method is to extend the maximum annual vacation in certain years as individuals acquire specified amounts of service. For example, an extra week or two can be added every fifth year after attaining eligibility for the company's maximum yearly vacation; or one week might be added five years after maximum eligibility has been reached, two weeks ten years after, three weeks fifteen years after, and so on.

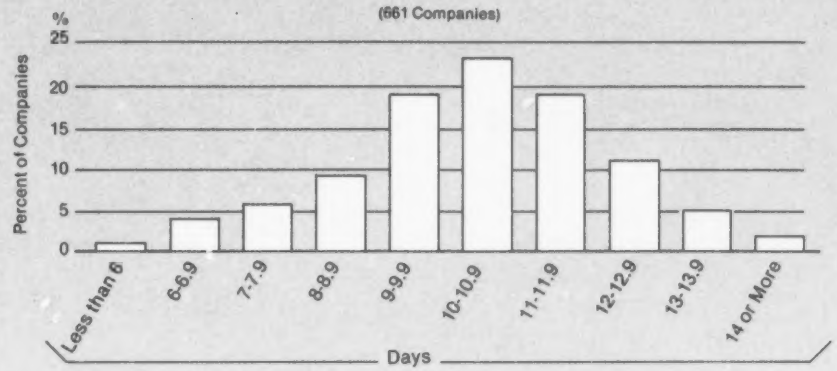
In still another approach, extended vacations are provided before eligibility for the maximum allowance is established. For example, a maximum four weeks of yearly vacation is earned with 20 years of service, an extra (fourth) week might be provided in the 15th year, or this sample four-week vacation might be provided twice—say in the 14th and 17th years.

Extended vacations are provided most commonly in insurance and banking where 27 percent and 25 percent, respectively, have such plans. Among large manufacturers—where the Steelworkers' programs are included—only 10 percent of the companies report extended vacations; 13 percent of the electric and gas utilities also have such provisions.

Holidays

Companies added one paid holiday on average, to the list after 1972—bringing the median count to ten days. Some 23 percent of the companies report ten, but another 19 percent provide eleven days in the course of the year, while 18 percent pay for twelve or more (Chart 7.7).

Chart 7.7 **Number of Paid Days**



The median company provides 10 paid holidays, but 37 percent provide 11 or more.

The average of ten holidays for all companies in the survey subsumes variations from one type of business to another. Only two classifications used here exhibit this median practice: the electric and gas business and small manufacturing. These two provide ten days on the average, although more than 40 percent of such companies have eleven or more days. The large manufacturers are already providing 11 days, and this median may be expected to stand for the foreseeable future, since only 21 percent of these companies have longer lists of holidays.

All other groups provide median holiday lists of fewer than ten days. Banking, insurance and trucking offer nine days each, and the retail and wholesale trade group appears ready to do so, since 47 percent exceed that business' eight-day median. Similarly, construction appears poised to add a day to its seven—43 percent already provide more.

To some extent, average holiday practices also reflect geographical variations. New England and the Middle Atlantic regions provide the largest number of paid holidays: The median number in each region is 11 days. On the other hand, there are nine paid days in these regions: the South Atlantic, the South Central—both East and West—and the Mountain states. In the West North Central region, nine days is the median number, too, but 47 percent of the companies there provide more than this. The East North Central region averages ten days, as does the Pacific.

Specific Days

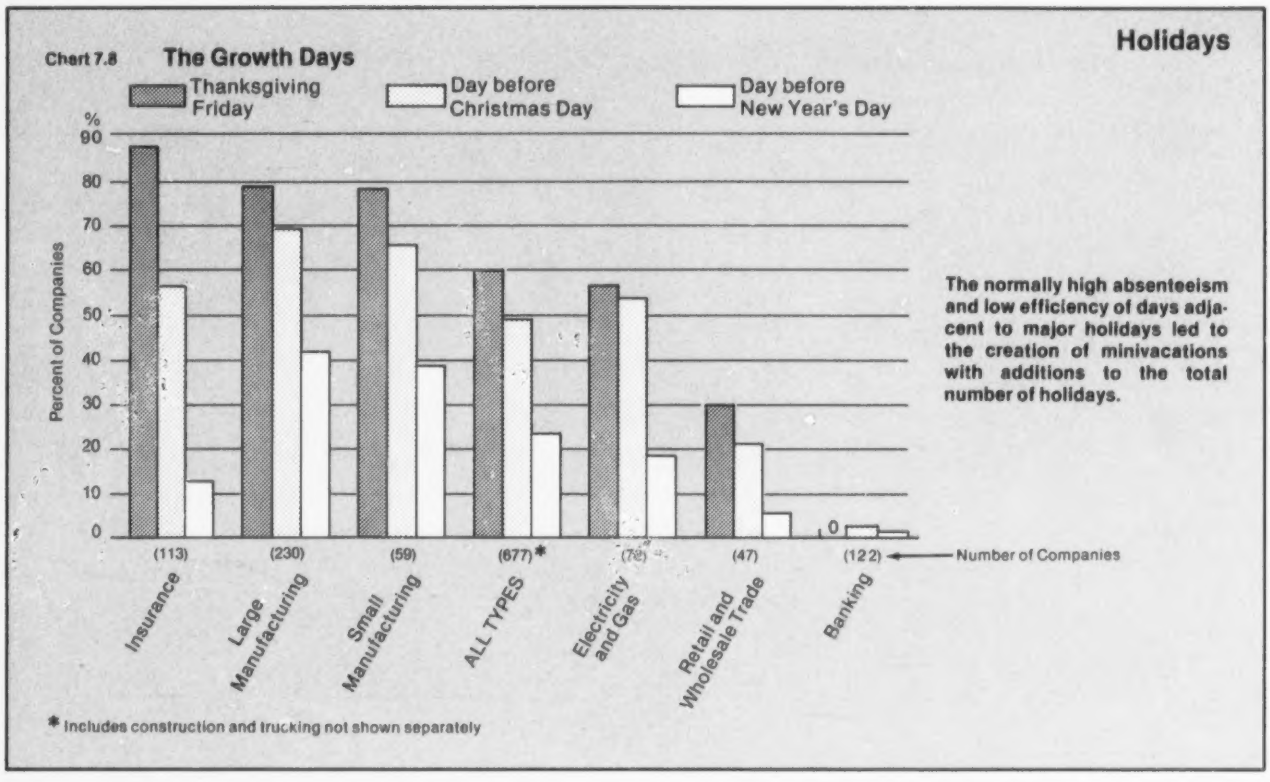
By tradition, six specific days are virtually universal elements of the paid holidays list: Thanksgiving Day, Christmas Day, New Year's Day, Independence Day, Labor Day, and Memorial Day (although the specific date for Memorial Day observance varies due both to confusion engendered by conflicting federal and state laws, and to residual historic regional differences). No other commemorative day approaches universal observance as closely as do these six.

Beyond these six basic holidays, companies usually make up the balance of the nine- ten- or eleven-day lists by choosing from among these days: the Friday after Thanksgiving (60 percent), Good Friday (47 percent), the day before Christmas (48 percent), the day before New Year's Day (23 percent), Washington's Birthday (40 percent), Veterans' Day (26 percent), and Columbus Day (21 percent). The last three—the only legal holidays in the group—have not been increasing in designation as holidays. The general prevalence of these days are all within three percentage points above the 1973 levels. This is substantially so in every type of business studied.

Contemporary Patterns

The patterns established in the previous edition of this *Profile* continue to be popular. Thanksgiving Friday is a case in point. Its unique calendar position, which had long established it as a high-absentee and low-efficiency day, made it ripe for transformation into an annual four-day weekend. Its prevalence as a holiday increased from 45 percent in 1973 to 60 percent. Except in the banking business, at least for the moment, this day appears as a likely candidate for the position of "seventh basic holiday," wherever nine or more days are provided.

The days adjacent to two other basic holidays—Christmas and New Year's Day—also spread rapidly as paid holidays after 1973. These adjacent days have become favorites, at least in years when the calendar favors the creation of four-day weekends. Now Christmas Eve is observed as a full paid holiday by 49 percent of the companies—up from 30 percent in 1973. Similarly, New Year's Eve is a paid holiday in 23 percent



of the companies as against the 10 percent reported in the earlier *Profile* (Chart 7.8).

Some companies apparently adopted these yuletime eves as full days after first establishing the practice of closing early, thereby adding only half a day. Thus the practice of providing a half-day off before Christmas declined over the period, from 19 percent of the 1973 sample to 10 percent currently; and New Year's Eve as a half-holiday is down, too, from 7 percent to just 4 percent.

Good Friday remains high on the holiday list, in terms of prevalence, but its growth has slowed so that now it is listed by just 47 percent of the companies. That is about 7 percent more than seven years ago, an increase that more likely reflects sampling error than growth. Increased prevalence of this day is greatest in small manufacturing (71 percent now as against 39 percent earlier)—a group that is subject to large sampling error.

Absences for Civic Service

The duties of citizenship may require an employee's absence from work for periods ranging from a few hours, to vote in a public election, to a few weeks of military or civilian service in an emergency—caused, for example, by a flood, storm or public disorder. The duty may be a recurring one, as in the case of military training each summer with the National Guard. Common to all of these is the potential loss of income an employee faces, even when the law provides for a fee or salary. This potential loss led private business to develop salary continuation plans to cover many such contingencies.

Companies in this survey were asked if they provide time off with pay for six specific civic duties: jury duty; service as witness in a court trial; summer military training encampment; National Guard call-up in a civil disaster; nonmilitary service in a civil emergency; and voting in public elections. This kind of paid time off, unlike many vacation and holiday practices, is more commonly provided for office employees than for nonoffice employees. However, many companies pay nonoffice employees in these situations, too, depending in part on the type of business.

Office Employees Lead

Jury duty is the most widely covered of these six civic services. Employees are paid during jury service—both office employees (98 percent of the *Profile* companies) and nonoffice employees (94 percent). To a lesser extent office employees' service as a trial witness, summer encampment, and National Guard call-up are also widely covered (71 percent to 78 percent). Nonmilitary service in a civil emergency is also covered by paid-time-off policies in 45 percent of the companies (Chart 7.9).

Election Day is an annual paid holiday in 8 percent of

the companies. Among the 92 percent that do not grant a holiday each year on Election Day, 63 percent allow office employees some paid time off to vote. (Some states require paid time off to vote, frequently on an "if needed" basis, but companies often provide time in excess of legal requirements.)

Practices Differ for Nonoffice Employees

To some extent, differences in practice of paying for civic service flow from a purely technical source. As we have noted for other practices, nonoffice employees are not reported by banks or insurers, where these provisions are often the most widespread. For example, summer military encampment pay is provided by 89 percent of the financial institutions, but by only 73 percent of the nonfinancial companies (for office employees). There is also substance to the differences, however, since some companies do differentiate between office and nonoffice employees.

Interestingly, in the case of nonmilitary emergency service, separate analyses of financial and nonfinancial companies' practices reveal opposite trends in the data: 66 percent of the financial institutions provide paid time off from the office for this purpose, but only 37 percent of the nonfinancial companies do so.

What the Companies Pay

Salary continuation during an absence to perform a civic duty does not imply the payment of full salary. When a payment is made by the public agency being served, companies generally pay the difference between that and regular salary. Some do pay full salary, however, although for different reasons, judging from the variations in practice from one type of service to another and between office and nonoffice employees. For jury service performed by office employees, the companies are about evenly divided between paying full salary and difference pay. Probably the widespread payment of full salary reflects, at least in part, the often low statutory fees paid by the courts, and variations in fee levels between state and federal courts. However, full pay is much less common for nonoffice employees.

The lower incidence of full pay for military service partly reflects the fact that military pay is more regularly updated than jurors' fees. Then, too, salary continuation practices for military duty were developed from the companies' experiences with the more familiar summer encampment. Since such duty is repeated each year, and some people continue in the service for many years, more companies prefer to use the difference pay method. Nevertheless, the same policy usually is applied in the case of an occasional National Guard call-up to deal with a civil disaster.

Personal Time Off

Personal time off with pay encompasses a variety of salary continuation practices, ranging in duration from an hour or two to a few days. The matters involved range in scope from the sobriety of bereavement to the enjoyment of a birthday celebration. All are individual matters and ordinarily do not result in major disruption of operations. As a class, these practices have their origins in early office management, and this office orientation continues to characterize many of them. Flexibility and individual consideration are still important elements in the administration of such practices (Chart 7.10).

Office Employees

A death in an employee's family is still the most widely recognized personal reason to grant paid time off.

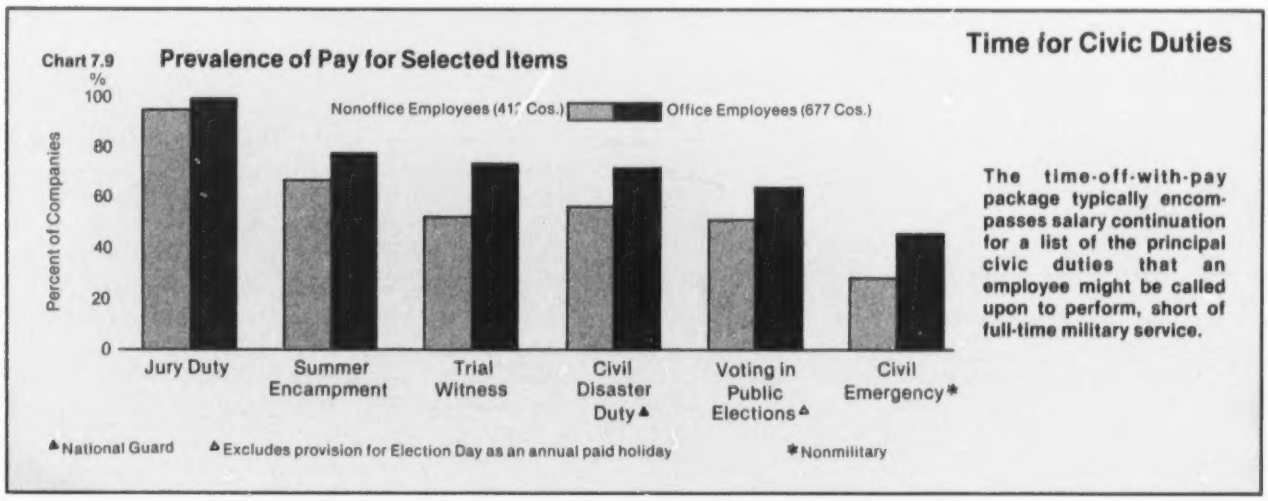
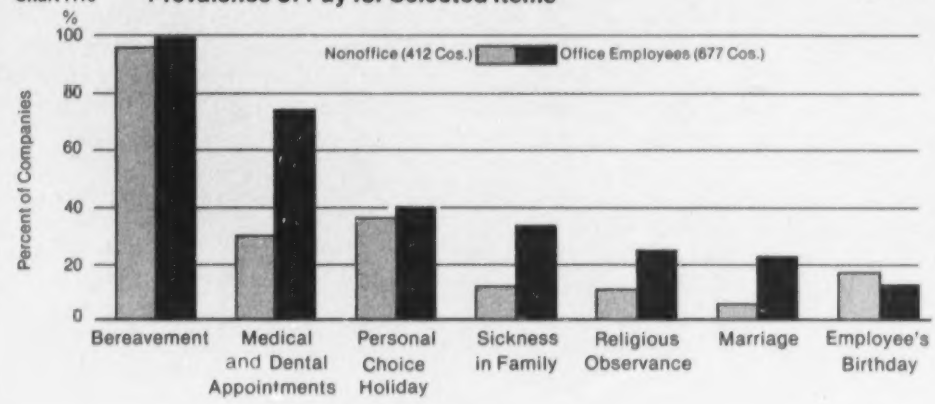


Chart 7.10 **Prevalence of Pay for Selected Items**



Time for Personal Business

Paid personal time off retains an office orientation except for personal choice holidays and the employee's birthday.

Almost all (99 percent) of the surveyed companies provide paid bereavement leave for office employees. Some 16 percent of these report that they have no set policy, but decide each case separately. Among those with established bereavement policies, three days are typically allowed for this purpose—73 percent of these policies include this provision. Ten percent report granting up to 5 days, and another 10 percent grant this longer period specifically for situations requiring overnight travel.

Medical and dental appointments are also widely subject to paid time off in offices; there, about 74 percent allow employees to keep these appointments during business hours without loss of pay. Time off with pay to care for a sick family member, on the other hand, is allowed for office employees by only 33 percent of the companies.

Paid time off for religious observance by individual office employees who request it is provided by 25 percent of the companies. Probably most such requests are for time off to attend services on Good Friday (in companies which do not close on that day), and for two Jewish observances: Rosh Hashanah and Yom Kippur. Of the 25 percent of the companies allowing time off for religious observance, 14 percent permit time off during part of the day to attend services, but not a full day. The other 11 percent allow as much as a full day or two—or three days in some companies—to observe religious holy days.

Another kind of personal holiday is the personal "float." It is a day off with pay, chosen by each employee (with management controlling the overall scheduling of such days). This practice was introduced in lieu of paid religious holidays by some companies, although floats are available for whatever purpose the employee chooses. Altogether, 40 percent of the companies report one or more floats; 21 percent specify one, 12 percent have two, and 7 percent allow more than two floating days. The office employee's birthday is celebrated as a personal holiday in 12 percent of the companies.

Nonoffice Employees

With the exception of bereavement leave, which is provided by 96 percent of the companies, and the personal "float," nonoffice employees have not enjoyed paid personal time off provisions to the same extent as office employees. About 37 percent of the companies allow floating holidays for nonoffice employees, and 30 percent provide paid time for medical and dental appointments. Other paid personal-time items are even less common, although one—the employee's birthday—is half again as common for nonoffice as for office employees.